

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3 -----
 4 In the Matter of the Application of)
 5)
 6 THE WASHINGTON WATER POWER COMPANY) Docket No. UE-941053
 7)
 8 a Washington corporation; SIERRA) Docket No. UE-941054
 9 PACIFIC POWER COMPANY, SIERRA)
 10 PACIFIC RESOURCES, and RESOURCES) VOLUME 2
 11 WEST ENERGY CORPORATION, Nevada)
 12 corporations, to Merge into) PAGES 48 - 262
 13 RESOURCES WEST ENERGY CORPORATION;)
 14 and Authorizing Issuance of)
 15 Securities, Assumption of)
 16 Obligations, and Adoption of)
 17 Tariffs.)
 18 -----

10

11 A hearing was held in the above matter on
 12 February 7, 1995, at 9:37 a.m. at 1300 South Evergreen
 13 Park Drive Southwest before Chairman SHARON L. NELSON,
 14 Commissioners RICHARD HEMSTAD and WILLIAM R. GILLIS
 15 and Administrative Law Judge ELMER CANFIELD.

16

17 The parties were present as follows:

18 THE WASHINGTON UTILITIES AND TRANSPORTATION
 19 COMMISSION STAFF, by SALLY G. JOHNSTON, Assistant
 20 Attorney General, 1400 South Evergreen Park Drive
 21 Southwest, Olympia, Washington 98504.

22 WASHINGTON WATER POWER COMPANY, by DAVID
 23 MEYER, Attorney at Law, 1200 Washington Trust
 24 Building, Spokane, Washington 99203.

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25 Cheryl Macdonald, CSR
 Court Reporter

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APPEARANCES (Cont.)

SIERRA PACIFIC RESOURCES, SIERRA PACIFIC
POWER COMPANY, by DAVID M. NORRIS, Attorney at Law,
6100 Neil Road, PO Box 10100, Reno, Nevada, 89520.

PUGET SOUND POWER & LIGHT COMPANY, by
STEVEN E. POPE, Attorney at Law, 411 - 108th Avenue
Northeast, Bellevue, Washington 98004.

NCAC, SNAP, by LINDA WILLIAMS, Attorney at
Law, 10266 Southwest Lancaster Road, Portland, Oregon
94219.

FOR THE PUBLIC, DONALD T. TROTTER,
Assistant Attorney General, 900 Fourth Avenue, Suite
2000, Seattle, Washington 98164.

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1 P R O C E E D I N G S

2 JUDGE CANFIELD: This hearing will please
3 come to order. We're convened in consolidated docket
4 Nos. UE-941053 and UE-941054 involving the merger
5 application of Washington Water Power, Sierra Power
6 Company, Sierra Pacific Resources and Resources West
7 Energy Corporation. This matter is being heard by the
8 Washington Utilities and Transportation Commission
9 consisting of Sharon L. Nelson, chairman, Richard
10 Hemstad, commissioner, and William R. Gillis,
11 commissioner. I'm Elmer Canfield, administrative law
12 judge, from the Office of Administrative Hearings. The
13 hearing is being held on Tuesday February 7, 1995
14 pursuant to due and proper notice to all interested
15 parties.

16 As indicated on the notice of hearing, the
17 purpose of today's hearing is to receive the direct
18 evidence of the applicants. I would like to start by
19 taking appearances beginning with the applicant,
20 please.

21 MR. MEYER: Thank you, Your Honor.
22 Appearing on behalf of joint applicants David Meyer,
23 and also appearing, Mr. David Norris, attorney for
24 Sierra Pacific Power. Our addresses are as noted in
25 our appearance forms.

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1 JUDGE CANFIELD: Thank you.

2 MS. WILLIAMS: I'm Linda Williams. I'm
3 attorney representing Northwest Conservation Act
4 Coalition and intervenor SNAP, Spokane Neighborhood
5 Action Program.

6 JUDGE CANFIELD: As we go along I will have
7 to remind everybody to make sure they use microphones
8 for the benefit of all those in the back of the room
9 as well.

10 MR. POPE: Steven Pope appearing for Puget
11 Sound Power and Light Company petitioner to intervene.
12 I'm with Perkins Coie law firm. Address is as noted
13 in the appearance form.

14 MR. TROTTER: For the public counsel
15 section of the attorney general's office, my name is
16 Donald T. Trotter, assistant attorney general and my
17 address is as previously noted.

18 JUDGE CANFIELD: Next.

19 MS. JOHNSTON: Sally G. Johnston, assistant
20 attorney general, representing Commission staff. My
21 address is as previously noted also.

22 CHAIRMAN NELSON: I don't think the
23 microphones are on. Can some member of the staff get
24 the secretary if no one else knows how to turn them
25 on?

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1 JUDGE CANFIELD: Thank you for that
2 appearance. I will note that two intervenors are not
3 present at today's session and did contact our office
4 indicating they would be present for later sessions.
5 Those being Paula Pyron of Northwest Alloys. She'll
6 be here for a later session. She's particularly
7 interested in some questioning of Mr. Buergerl and also
8 Michael Uda of WICFUR had basically the same interest,
9 so they will attend later in the sessions. Are there
10 any other preliminary-type matters that anyone has to
11 address?

12 MR. MEYER: Just a scheduling matter with
13 respect to one witness. Tom Flaherty, he has some
14 scheduling conflicts with an Illinois Commission
15 matter. We would like to have him appear Thursday
16 morning, even if it means taking him out of order.

17 JUDGE CANFIELD: Any comments on that?

18 MS. JOHNSTON: No objection.

19 JUDGE CANFIELD: We'll certainly try to
20 accommodate that then. He's towards the end of the
21 list so that should work out fine. Any other
22 preliminary matters?

23 Hearing none why don't we proceed then.

24 MS. JOHNSTON: Excuse me, Your Honor, I do
25 have a preliminary matter. I would ask that the

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1 deposition transcripts be marked and I would like to
2 offer them en masse right now at the beginning prior
3 to getting into the testimony.

4 JUDGE CANFIELD: Okay. We haven't assigned
5 any numbers to those. I assume they would be taken
6 care of on an individual basis, but you want to handle
7 that up front?

8 MS. JOHNSTON: If possible.

9 JUDGE CANFIELD: Let's take a short recess
10 to mark those exhibits.

11 (Recess.)

12 JUDGE CANFIELD: We're back on the record
13 after a short break during which time some marking of
14 exhibits was discussed, and we'll pick that up later
15 in the session. Go ahead, Mr. Meyer.

16 MR. MEYER: Thank you. With that I call to
17 the stand Mr. Redmond and if he could be sworn.

18 Whereupon,

19 PAUL REDMOND,
20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MR. MEYER:

25 Q. We've already premarked during the

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1 pre-hearing conference the exhibits for
2 identification, so with that having been done, Mr.
3 Redmond, for the record, would you please state your
4 name and your employer and your position.

5 A. My name is Paul A. Redmond. I'm employed
6 by the Washington Water Power company as chairman,
7 president and CEO.

8 Q. And have you prepared prefiled direct
9 testimony in this case?

10 A. Yes, I have.

11 Q. Do you have corrections to make to that on
12 page 11?

13 A. There's only one correction on page 11, and
14 that has to do with line 25 and 26. The properties
15 that were -- in Sandpoint that were before the Idaho
16 Commission has been approved, so in line 25, if we
17 scratch "is presently" and scratch "before" in line 27
18 and then substitute "was approved by" for "before" and
19 then at the end of that sentence, "in December 1994."
20 So it should read then, "The application for the
21 regulatory approval of the transfer of these
22 properties was approved by the Idaho Public Utilities
23 Commission in December 1994."

24 Q. Thank you. Any other corrections to your
25 direct testimony?

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1 A. No, there is not.

2 Q. If I were to ask you the questions that
3 appear in that prefiled testimony, would your answers
4 be the same?

5 A. Yes, they would.

6 Q. Are you also sponsoring what has been
7 marked for identification as Exhibits 2 through 6?

8 A. Yes.

9 Q. And were these prepared by you or under
10 your direction and supervision?

11 A. Yes, they were.

12 Q. And is it true that two of those exhibits,
13 namely Exhibit 5, page 1 and Exhibit 5, page 2, are
14 blown up for illustrative purposes?

15 A. Big time.

16 MR. MEYER: With that I move for the
17 admission of Exhibits T-1, 2, 3, 4, 5 and 6.

18 JUDGE CANFIELD: Any objections?

19 Let the record reflect there are no
20 objections. Exhibits T-1, 2, 3, 4, 5 and 6 are so
21 entered into the record.

22 (Admitted Exhibits T-1, 2 - 6.)

23 MR. MEYER: With that the witness is
24 tendered for cross.

25 MS. JOHNSTON: Thank you.

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1 CROSS-EXAMINATION

2 BY MS. JOHNSTON:

3 Q. Good morning, Mr. Redmond.

4 A. Good morning, Ms. Johnston.

5 Q. Please turn to page 16 of your testimony.

6 There you compare the retail rates of Water Power and
7 Sierra. Would you agree that's true?

8 A. Up on line 7 through 14, is that where
9 you're referring to on page 16?

10 Q. Yes.

11 A. Yes.

12 Q. Now please turn to your Exhibit 6. Now,
13 page 1 of 3 of this exhibit shows this comparison.

14 Would you accept subject to check that Sierra
15 Pacific's average retail rates are about 39.7 percent
16 higher than those of Water Power?

17 A. Yes.

18 Q. And would you accept subject to check that
19 the residential rates are approximately 74 percent
20 higher than those of Water Power?

21 A. Yes.

22 Q. And also that the commercial rates of
23 Sierra are 30.8 percent higher than those of Water
24 Power?

25 A. Yes.

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1 Q. And finally, the industrial rates are 45
2 percent higher?

3 A. Yes.

4 Q. On page 16 of your testimony, you describe
5 the customer mix of Sierra Pacific. Would you agree
6 that Sierra Pacific derives a greater percentage of
7 revenue from commercial and industrial customers than
8 does Water Power?

9 A. On a percentage basis they do, yes.

10 Q. And is it also true that a significant
11 factor in that load of Sierra Pacific is because of
12 mining and gaming industries?

13 A. Yes. That makes up a large part of their
14 commercial and industrial load.

15 Q. Do you have an opinion regarding the risk
16 inherent in these types of load, particularly the
17 typically cyclical nature of mining loads?

18 A. Yes, I do. We looked at that very
19 carefully when we were examining the opportunity to
20 merge with Sierra Pacific, of course, because of this
21 differential that you've just indicated, and on
22 reviewing that we found that the contracts that Sierra
23 Pacific had with those mining operations and the
24 mining operations themselves were of a nature that we
25 felt very confident that those loads would remain on

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1 the system, number one, and we felt very confident
2 that the investment that Sierra Pacific had put into
3 serving those loads, that is, the capital investment,
4 would be returned to Sierra Pacific and the customers
5 of Sierra Pacific should something happen to the
6 mining operations. It happened at the time that I was
7 on the board of Hecla Mining Company who also had
8 operations in Nevada, so I was a little familiar with
9 what mining operations are and particularly the Nevada
10 mining organization that Sierra Pacific serves, so
11 after looking at that myself, personally, I felt very
12 confident that Barrick and others had not only good
13 operations for many years to come but also were
14 growing operations that would be very beneficial to
15 both companies.

16 Q. Are the revenues associated with these type
17 loads less risky or more risky than residential loads?

18 A. I guess you would have to, you know --
19 relative to risk you would have to say that any large
20 industrial load, be it mining, gaming or paper or wood
21 products is probably more risky than residential
22 mainly because on the residential side you have all
23 those many more customers to diversify your load
24 versus large industrial customers, so any industrial
25 customer on any utility's service area would certainly

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1 be more risky than a single residential customer.

2 Q. On page 17 of your testimony, you state at
3 the top of the page that Water Power is "generally
4 well positioned" to meet new challenges based on a
5 number of favorable factors, and among these factors
6 you include low production costs, proximity to major
7 transmission lines, wholesale experience and
8 commitments to high levels of customer satisfaction
9 and cost reduction. Do you recall that testimony?

10 A. Yes.

11 Q. And you do consider these favorable
12 factors; is that true?

13 A. Yes, I do.

14 Q. Based on the average rates of Sierra
15 Pacific shown in your Exhibit 6, do you believe Sierra
16 Pacific could fairly be characterized as having "low
17 production costs"?

18 A. I think that Sierra Pacific's production
19 costs relative to the market that they're in should be
20 considered low. If you're comparing them to the Water
21 Power they're certainly not low, but if you're
22 comparing them to the marketplace that they exist in,
23 which is really the California and southwest
24 marketplace, yes, I would say that they're very
25 competitive.

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1 Q. And based on the graphs on page 3 of your
2 Exhibit 6 showing Sierra Pacific's wholesale revenue
3 percentage as being about 3.9 percent of total
4 revenues as compared to Water Power's 27.3 percent,
5 would you say that Sierra's wholesale activities are
6 significantly less than Water Power's?

7 A. Yes, that's absolutely right. We probably
8 have more wholesale activities than virtually -- on a
9 size basis -- than any other company in the western
10 states.

11 Q. Now I would like to get back to your
12 statement that Water Power is generally well
13 positioned and the description of favorable factors.
14 You did not list any specific shortcomings. Can you
15 tell us what additional factors would be necessary to
16 change the generally well positioned statement to one
17 of, say, very well positioned on a stand-alone
18 environment?

19 A. I'm hesitating because that's a long answer
20 and I apologize ahead of time because it involves an
21 awful lot of discussions and thought processes that
22 our company has gone through, but let me answer your
23 question. First of all, the Washington Water Power
24 company has a major problem in terms of the territory
25 that it serves from the standpoint of economic

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1 development and growth. Our load growth is
2 approximately eight-tenths of one percent a year and
3 we anticipate that that's what it's going to be for
4 many years to come. We have, beginning in 1986,
5 recognized that competition was a force that we were
6 going to have to recognize in the utility industry
7 because the industry was changing. And as a result in
8 1986 we recognized that if we were going to be
9 competitive we absolutely had to maintain the lowest
10 possible rates that we could in order to keep our
11 company competitive with other companies and other
12 industries that were going to be started between 1986
13 and today and on into the future.

14 As a result of that, we undertook in our
15 company major cost saving measures to manage and
16 control, if you will, our cost as we move to the
17 future. We put a heavy emphasis on service to the
18 customers and then we put a heavy emphasis on trying
19 to build those revenues beyond the eight-tenths of
20 one percent a year. I have to say that although we've
21 been successful in moving our power growth or load
22 growth up from virtually zero in 1985 and '86 to
23 eight-tenths of a percent today, that's about as much
24 as we anticipate that we can expect as we move to the
25 future. So in terms of one of our problems I would

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1 say that's one of our biggest problems.

2 Another issue that we look at as well is
3 what's happening to our company relative to the
4 weather patterns that we're experiencing and our hydro
5 base. Hydro is a very beneficial resource to have.
6 It's one of the reasons why our average costs are so
7 low. On the other hand, we also recognize that when
8 you have drought years like we have experienced in the
9 last three years now, and it looks like maybe even a
10 potential of that happening again in 1995, we take a
11 major hit in terms of increased expenses, both from
12 the standpoint of additional fuel costs, because we
13 have to substitute for the hydro, and we take a major
14 hit in purchasing power costs because instead of using
15 our low cost hydro we have to buy power from others to
16 substitute for that.

17 So as a result in 1994, for example, we
18 took almost a 20 million dollar hit, which is our
19 expenses over and above what we would have anticipated
20 had we had a normal water year. And they can almost
21 virtually be traced back to the fact that we had the
22 low water. That is a major fault and a problem that
23 we have.

24 Q. Excuse me. I don't mean to interrupt you,
25 but I'm afraid at the end of this I'm going to say

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1 that I don't understand the answer to my question, and
2 I don't want to have to go into this again, but I
3 think that my question was asking for specific
4 shortcomings or areas of improvement that you think
5 exist before you would be willing to state that Water
6 Power is very well positioned under a stand-alone
7 environment.

8 A. And I guess in deference to your comment,
9 that's what I was trying to respond to and that is
10 what those shortcomings are and I was trying to
11 iterate those shortcomings. First of all, there's the
12 load growth, and I think I explained that. Secondly,
13 there is the hydro situation, which is our base of
14 resources, and the third then are the economy -- are
15 the economics of our region, whether we are a growing
16 region or not, and we simply are not growing to the
17 extent that we should be growing, so that's a short-
18 coming that needs to be corrected and I hope I'm being
19 responsive but these are the shortcomings that we
20 see as a stand-alone company.

21 So, what needs to be corrected then from
22 the standpoint of load is we need more load growth,
23 and the reason we need more load growth is because we
24 need more revenues. You see, you can reduce your
25 costs in a utility to a certain extent, but if you

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1 don't have more customers, if you don't have that
2 additional revenue coming in, then the inflation
3 continues to peck away at you, and sooner or later you
4 have to come before a Commission and you have to ask
5 for a rate increase because you can only reduce your
6 costs so much and inflation then offsets that.

7 And as you go to a Commission and ask for a
8 rate increase, you are in a sense taking yourself out
9 of the competitive marketplace, because, as I
10 mentioned, in 1986 it was our desire at that point to
11 minimize any rate increases as we went to the future,
12 and I think we've been reasonably successful in doing
13 that since we've only had two minor ones since 1987.
14 But if you have to go to the Commission and do in fact
15 raise your rates, then you take yourself out of the
16 competitive marketplace. Now, what happens if you
17 take yourself out of the competitive marketplace,
18 obviously, is that you're putting yourself in a
19 position of losing more customers as we see the
20 marketplace today. So that's one of our shortcomings
21 is the lack of load growth so we need to correct that.

22 Q. So we have load growth, hydro, economics.
23 Are there any others that you can just list and not
24 explain?

25 A. It's hard for me to list and not explain.

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1 Don't you want an explanation of what these mean?

2 Q. No, actually, I don't.

3 A. You're not interested in that. There's the
4 geographical area. We are -- and the geographical
5 area has to do with swings in our weather. We are a
6 heavily -- our company has a very low load factor.
7 We're heavily dependent upon the winter peaking load
8 for our revenues. Most of our revenues come in during
9 the winter months. We were just talking prior to
10 these hearings about, before this hearing started,
11 about the weather in Eastern Washington and how for
12 the utility that serves that area it's not very good
13 weather this time of the year since it's so warm. So
14 we have those factors and then there would be others
15 that I could mention in addition to that.

16 Q. That's fine. Thank you. Farther down on
17 page 17 of your testimony, you describe the mission
18 statement that has been adopted by Water Power for a
19 number of years. What assurances can you provide this
20 Commission that the commitment behind this statement
21 and the emphasis on the identifying points will be
22 maintained and indeed fostered in the merged company
23 particularly in light of proposed diversity and
24 administrative and operational locations?

25 A. I guess I can give you the assurance of my

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1 personal word. And according to the merger agreement
2 I'm to be COE until January 1 of 1999, first of all.
3 Secondly, I can back up that personal word with the
4 history of what has occurred with our company since I
5 became chairman and COE in 1985, because this mission
6 statement is a statement that we have lived during
7 that time period, and during that time period we have
8 undergone some major changes in our company in order
9 that we can deliver energy services at competitive
10 prices and exceed our customers' expectations. So I
11 guess I would point to our company and what we have
12 done through the leadership in that company. And I
13 can tell you that we have worked so hard to position
14 ourselves as well as we can as a utility serving
15 Washington customers that there is no way that any of
16 our employees would want to give that up. And
17 certainly I can tell you with the time and dedication
18 that I have put into that effort, there would be no
19 way that I would want to give up that mission
20 statement or the ground that we have gained through
21 these last 10 years.

22 And so other than that, that is my word,
23 performance of the company, our actions, what we have
24 done, how we have tried to protect the customer, and
25 how we have tried to meet and exceed their

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1 expectations, and how we have tried to deliver energy
2 services at a competitive price. In evaluating that
3 we looked very closely at Sierra Pacific to be sure
4 that that merger of the two companies would not
5 compromise that position but it would in fact enhance
6 that position and that was very important in our
7 decision-making process.

8 Q. At the top of page 22 of your testimony,
9 you state that transmission access is a significant
10 issue for each company irrespective of this merger
11 agreement. You also state that both companies have
12 access to the integrated regional grid. Based on the
13 relative percentages of wholesale activity revenue you
14 identify in your Exhibit 6, would it be correct to say
15 that Water Power's historical access to the grid has
16 been utilized more extensively than Sierra's at least
17 as far as wholesale activities are concerned?

18 A. Yes. There are reasons for that but the
19 answer is yes.

20 Q. Would you expect this relative trend to
21 continue into the future as stand-alone companies?

22 A. No. I think that you would find as
23 stand-alone companies that we would try as best we
24 could to even increase our wholesale activities, but I
25 believe you would also find that under the direction

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1 of Walt Higgins, the new COE of Sierra Pacific, that
2 their wholesale marketing would have a more
3 significant part of their total company operations
4 into the future, and as a matter of fact, in 1994, I
5 believe, you will find that they've even started down
6 the line of achieving that.

7 Q. At the bottom of page 24, continuing on to
8 the top of page 25 of your testimony, you talk
9 about the reorganization of the new company into
10 two separate operating divisions with corporate and
11 support functions centralized in the new company's
12 Spokane headquarters. When is it expected that the
13 two companies through the transition teams or
14 otherwise will have estimates on the number of
15 positions that will be eliminated at each of the
16 present stand-alone company's locations?

17 A. Could you repeat the last part of your
18 question again for me. I'm sorry, I didn't quite
19 understand relative -- well, repeat the question,
20 please.

21 Q. When will you expect to see estimates on
22 the numbers of positions that will be eliminated at
23 each of the present stand-alone company's locations?

24 A. The transition teams are due to make their
25 first report the middle of March and that report

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1 should include in draft form at that point the draft
2 recommendations for these locations on where people
3 would be whether it be Reno and/or Spokane.

4 Q. When do you anticipate final as opposed to
5 a draft?

6 A. Well, I would say the draft would be about
7 80 percent, maybe even more accurate at that point.
8 This is not a process that has an end. This is a
9 beginning of a process, so I'm not sure that we'll
10 ever come to a point where everything will be final.
11 It is a very active process and it will be continually
12 changing, but I think that the March numbers will be
13 pretty close to what the end result will be.

14 Q. So you don't know?

15 A. So maybe 80 percent or somewhere like that
16 in terms of accuracy. I guess I'm not trying to evade
17 your question. It's just that this is a dynamic
18 process and it's hard to say, well, as of such and
19 such a date everything is going to be known. We're
20 continually changing what we do and how we go about
21 the process each and every day, and I think that
22 although, as I say, the transition team's
23 recommendations will be probably close to maybe -- I
24 don't know what the percentage would be but we might
25 even say as high as 90 percent the way that it will

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1 end up. I couldn't say that it's 100 percent
2 accurate, if that's your question.

3 Q. In regard to merger-related personnel
4 reductions, have you or anyone associated with Water
5 Power or anyone at Sierra Pacific, to your knowledge,
6 participated in discussions with other regulatory
7 bodies regarding reductions in merged company
8 positions or the location of expected employment loss
9 other than what is presented in the direct testimony
10 and exhibits of company witnesses?

11 A. No. We have not participated with any
12 other regulatory agencies or given any other
13 regulatory agencies any more information than the
14 Washington Commission has.

15 Q. So it's not true that Water Power and
16 Sierra have been negotiating with the Nevada Commission
17 regarding net employment loss?

18 A. We have not been negotiating with the
19 Commission regarding employment loss. We have simply
20 negotiated with that Commission on the basis of when
21 they wanted the information and when we could get it
22 to them, and that's why the middle of March date is so
23 important because in those negotiations they wanted to
24 know when the transition team's reports, transition
25 team reports would be ready, particularly as it had to

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1 do with savings, and we told them that those reports
2 would be ready by the middle of March, and we have
3 given instructions to our transition teams to finalize
4 that part of the report, certainly, and anything else
5 that they can finalize at that point for us.

6 Q. So you haven't tendered any assurances
7 regarding net employment loss to any regulatory body?

8 A. No, no different than we have with any
9 other Commission group.

10 Q. Please turn to page 28 of your testimony.
11 At lines 17 through 21 you state, "as set forth on
12 section 7.16 of the merger agreement, the new company
13 will organize its business operations into strategic
14 business units with such units and significant
15 presence, function and operations to be located in
16 both Spokane and Reno." Do you see that?

17 A. Yes, I do.

18 Q. What do you mean by strategic business
19 units?

20 A. Well, since that time we have, if you will,
21 presented to both companies Walt Higgins's and my
22 vision of what Resources West will be. We've changed
23 the business unit definition to lines of business, and
24 we have described in that vision statement that we
25 gave to the company people -- and I believe you have a

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1 copy of it -- the lines of businesses that we would
2 anticipate in a conceptual basis for Resource West
3 Energy.

4 MS. JOHNSTON: Your Honor, I would like to
5 have this marked for identification, please.

6 JUDGE CANFIELD: For the record Ms.
7 Johnston has just distributed a multi-page document
8 which I will mark as the next exhibit number in order
9 and that will be Exhibit No. 49 for identification.

10 (Marked Exhibit 49.)

11 Q. Mr. Redmond, is this what you were just
12 describing a copy of?

13 A. Yes, it is, Ms. Johnston.

14 Q. Does it appear to be a true and accurate
15 copy of your presentation materials?

16 A. Yes, it does.

17 MS. JOHNSTON: Your Honor, move the
18 admission of Exhibit 49.

19 JUDGE CANFIELD: Any objections?

20 MR. MEYER: None.

21 JUDGE CANFIELD: Exhibit 49 is so entered
22 into the record.

23 (Admitted Exhibit 49.)

24 Q. Now, the strategic business units that you
25 were just discussing a moment ago and also discuss in

00074

1 your testimony are the same as the lines of business
2 outlined in this January 9, 1995 presentation entitled
3 Resources West Energy, The Future For RWE?

4 A. Yes, that's correct.

5 Q. And this presentation was made to Sierra
6 and Water Power. Is that true?

7 A. Yes, that's correct.

8 Q. To anyone else?

9 A. No. It was to the leadership and employees
10 of Sierra and Water Power.

11 Q. On page 21 and 22 of Exhibit 49? Lower
12 right-hand corner. It's somewhat difficult to read.

13 A. Give me the title of the page. I don't
14 have numbers on my page. Oh, right there. I'm sorry.
15 21?

16 Q. Page 21 and 22. These show an entirely
17 different organizational structure with several
18 different lines of business. Would this mean that the
19 Water Power operating division would be structured
20 very differently than Water Power is today?

21 A. As a matter of fact, there would be a
22 difference but only in -- you know, only in time as of
23 this moment today. If you go to the end of the year
24 when our redesign that is currently being implemented
25 at the Water Power is more -- is more long in terms of

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1 its application, then the lines of business that you
2 see defined on page 21 would be very close to the
3 operational side of Washington Water Power Company,
4 but today we are not organized under lines of
5 business, but we are implementing under redesign that
6 particular line of business, yes.

7 Q. But this redesign is part of the merger, is
8 it not?

9 A. No, it's not. It's aside from the merger.
10 It's something Water Power has been working on now for
11 two and a half years. Because, you see, in terms of
12 the merger itself, the operational side is really
13 unaffected except from the perspective of how the
14 companies will be organized in the future.

15 Q. Why was Resources West incorporated in
16 the state of Nevada rather than in the state of
17 Washington or even in Delaware?

18 A. We decided that in looking at some of the
19 incorporation laws and laws of the state of Washington
20 that it would just be better for us to incorporate in
21 Nevada. One of those that we ran into in terms of our
22 shareholder vote was in the state of Washington, we're
23 required by state law to get two thirds favorable vote
24 but in Nevada you just needed 51 percent. So because
25 of issues like that we elected to incorporate in

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1 Nevada.

2 Q. Please turn to page 7 of your testimony.

3 A. 7?

4 Q. Yes, sir.

5 A. Yes.

6 Q. On line 32 you state, "The company has a
7 proud heritage as an innovative provider of electric
8 and natural gas service in the inland northwest." Do
9 you see that?

10 A. Yes.

11 Q. Until 1982 the company also owned some
12 water properties and provided water service; is that
13 correct?

14 A. Until '82, yes, I think that's the right
15 date.

16 Q. And under the proposed merger Resources
17 West would again be in the water utility business. Is
18 that true?

19 A. Yes, we would be.

20 Q. Mr. Redmond, I've just handed you a copy
21 of a joint application requesting Commission approval
22 of the sale of all water properties.

23 A. Yes.

24 Q. This letter is dated July 30, 1982?

25 A. Yes, it is.

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1 Q. And in this application, which is signed by
2 you, for the sale of Water Power's Washington water
3 properties, beginning at the bottom of page 3 and
4 continuing on to page 4, the company argued that the
5 sale was in the best interests of the company and its
6 ratepayers because the company "believes its employees
7 and financial resources should be primarily devoted to
8 matters related to its electric and natural gas
9 operations. Under conditions now existing and likely
10 to exist for the foreseeable future, Washington
11 resources are strained to meet its responsibilities as
12 an electric and gas utility. Washington's involvement
13 in conventional and alternative resource projects,
14 conservation, weatherization and implementation of the
15 northwest regional power bill requires it to devote
16 its reduced personnel and available capital to
17 resolving the complicated and time consuming problems
18 associated with its electric and natural gas
19 business." Is that an accurate reading?

20 A. Yes, it is. Good job.

21 Q. And is the company still committed to
22 involvement in conventional and alternative resource
23 projects, conservation, weatherization and
24 implementation of the northwest regional power bill?

25 A. Yes, we are.

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1 Q. One of the bases for this merger is Water
2 Power's predicted low load growth in its service
3 territory. Is that correct?

4 A. That's right.

5 Q. And in your testimony at page 9, line 28,
6 you state, "In terms of electric retail load growth,
7 the company expects growth to average approximately
8 .85 percent annually for the next five years?"

9 A. Yes.

10 Q. In the company's January 26, 1995 news
11 release reporting fourth quarter earnings it stated
12 that 1994 had warmer than normal temperatures. Do you
13 recall that?

14 A. Yes.

15 Q. And all else being equal, customers use
16 less electricity in warmer than normal years; is that
17 true?

18 A. Yes.

19 Q. Yet the company reported growth on its gas
20 system of 8.4 percent and electric growth at 3
21 percent, do you recall that?

22 A. Yes, but I think that we're confusing
23 customers and growth. In terms of customers there was
24 an 8.4 percent customer growth in natural gas and
25 there was a 3 percent customer growth in electric, but

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1 in terms of load growth it was less than 1 percent, as
2 I recall, on a normalized basis.

3 Q. Will you accept subject to check that the
4 company's September 1993 load forecast had estimated
5 annual load growth at .9 percent?

6 A. .9 percent versus .85? I would accept that
7 subject to check.

8 Q. You further predict that average annual
9 usage by residential customers will decrease. Is that
10 true?

11 A. Yeah, but I don't like the word predict.
12 Forecast might be a better word because we find that
13 one thing about forecasts, they're wrong, and we know
14 that they're going to be wrong and we can't predict
15 the future, but yes, we do anticipate and from past
16 history we know that our residential use of our
17 customers has decreased over the past years, both in
18 natural gas and electricity.

19 MS. JOHNSTON: For the record, the
20 reference is to page 9, lines 31, 32.

21 Q. In Mr. Eliassen's deposition at page 29,
22 line 25, he stated, "so I think that the improved
23 business prospects, the growth in customers, the
24 growth in usage, is critical for a company." Is it
25 the intention of Water Power to try to encourage

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1 growth in usage per customer?

2 A. Well, there are areas that customers should
3 be using energy beneficially for their well-being and
4 the well-being of others, so to a certain extent, we
5 do encourage customers to use more of our services.
6 For example, protective lighting around the
7 residential, accepted by all agencies and most
8 industries and trade associations I know of, is a good
9 use of our energy services. On the other hand, we
10 promote the wise and efficient use of energy, so
11 there's always a combination of those two. What we're
12 really talking about is not so much the use per
13 customer going up but the number of customers that we
14 are anticipating and that growth that comes from that.
15 That's what we're really searching for. And in answer
16 to one of your first questions on the shortcomings,
17 that's one of the problems that we have is we don't
18 have enough growth and that .85, .9 percent does not
19 represent enough revenues to cover the increasing
20 costs that we incur each year because of inflation and
21 other factors.

22 Q. Other than protective lighting, do any
23 other examples come to mind?

24 A. Of increased use?

25 Q. Yes.

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1 A. Well, the proper use of the right fuel,
2 natural gas versus electricity in many cases. You
3 know that we've had strong demand side management
4 programs in that and have promoted that on an
5 incentive basis in the past years to convert people
6 from electric to natural gas, once again, emphasizing
7 the need to use the energy most effectively and
8 efficiently.

9 MS. JOHNSTON: Would you please mark
10 company's response to staff data request No. 41 as the
11 next exhibit in line.

12 JUDGE CANFIELD: The next exhibit number
13 would be No. 50, and as I just note glancing through
14 it, there's a confidential mark on one of the pages.
15 Is this to be marked as a confidential or a regular
16 exhibit?

17 MR. MEYER: Let me have just a moment to
18 confer.

19 Very well. Proceed.

20 JUDGE CANFIELD: No confidential required?

21 MR. MEYER: No. These were furnished in
22 responses to data request and the response was not
23 identified as a confidential even though the document
24 has scribbling identified as confidential.

25 JUDGE CANFIELD: So it's a

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1 nonconfidentially marked exhibit.

2 MR. MEYER: I think you've got it right.

3 JUDGE CANFIELD: That will be marked as
4 Exhibit No. 50.

5 (Marked Exhibit 50.)

6 Q. Mr. Redmond, I've just handed you what's
7 been marked as Exhibit 50 for identification. Are you
8 familiar with this?

9 A. Somewhat. I'm familiar with the first part
10 of it, the outline of meetings. I'm not familiar with
11 the handwritten notes in the back.

12 Q. Well, I will ask you a couple of questions
13 and we'll just see where we get. As response to data
14 request No. 41, which is Exhibit 50, the company
15 provided notes of Mr. Eliassen from a March 1994
16 meeting. The last page of these notes outline a
17 system of document control, and the instructions were
18 to toss working papers and drafts, toss everything you
19 individually don't need. Board members were not to
20 take copies of anything and to "purge notes, keep the
21 clean copies, any analysis of synergies need to be
22 tossed." Was this document control a directive of
23 yours or one of which you were aware?

24 A. I think it was a general discussion about
25 where we were in the process and what we were doing.

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1 We were putting together a very complicated merger.
2 There were a lot of draft documents that were
3 formulated and passed among the team that was working
4 on both sides of the issue. Some of these draft
5 documents didn't mean anything, and they were efforts
6 to try to clarify the issues, but as we proceeded
7 down the road in this dynamic products you got to the
8 point where that information was really irrelevant
9 and/or was wrong. There were some reports that were
10 made, some calculations that were made that later
11 turned out with additional information received to be
12 wrong, so in general discussion we said, we just made
13 the agreement, that in order not to confuse the issue
14 as we completed this merger that those type of
15 documents should be controlled and they should not be
16 left available so they would mislead people that later
17 read them as to what we were really trying to do.

18 Q. Was it because of your desire to avoid
19 confusion and inaccurate information that you kept no
20 notes of your many meetings and discussions with Mr.
21 Higgins about the possibility of merger?

22 A. I'm not a person that generally does keep
23 notes on every meeting that I have, but the subject
24 matter of our discussions during that time which had
25 more to do with cultural issues were not really things

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1 that required taking notes. I mean, they were
2 personal discussions and more of a, if you will, get-
3 to-know-you sessions versus any definitive resolution
4 of concepts coming out of those motions or even -- at
5 those meetings -- or even objectives on what we needed
6 to achieve before the next meeting. Those are pretty
7 well straight lined and not necessary to make any
8 notes. So that's the reason there were no notes from
9 those.

10 Q. So it's true, then, that you kept no notes
11 of meetings with Walt Higgins?

12 A. That's right. I think we've indicated that
13 in our response to the data requisition.

14 MS. JOHNSTON: Your Honor, move the
15 admission of Exhibit 50.

16 JUDGE CANFIELD: Any objections to that
17 exhibit?

18 MR. MEYER: No objection.

19 JUDGE CANFIELD: Exhibit 50 is so entered
20 into the record.

21 (Admitted Exhibit 50.)

22 Q. Now, Mr. Redmond, one of the themes of this
23 merger which you have repeated in presentations to
24 Water Power employees and the financial community is
25 that this is a quote-unquote merger of equals. Is

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1 that correct?

2 A. That's correct.

3 Q. When you refer to the companies as being
4 equals, to what metrics or parameters are you
5 referring?

6 A. That we have an equal basis in terms of one
7 company is not acquiring the other company. That we
8 are putting two very good operating companies together
9 to make an even better company in the end result and,
10 consequently, because it's not an acquisition, that
11 both parties will have a say at the table in terms of
12 the merger negotiations and where we arrived at in
13 terms of the final merger agreement. That also meant
14 that the premium that would be paid to recognize what
15 differences there were between the companies in terms
16 of stock price and other factors would be a very small
17 premium because it was a merger of equals versus an
18 acquisition.

19 Q. Well, other than the fact that there was no
20 acquisition, as you described it, did you use any
21 standards, metrics or parameters to determine whether
22 or not this is truly a merger of equals?

23 A. Yeah. I think that throughout the process
24 it was a negotiated process beginning with the
25 cultural issues, beginning with the relationship of

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1 Walt Higgins and myself, continuing on then through
2 what we're doing right now with the transition teams.
3 It's a merger of equals. It's not Water Power saying
4 to Sierra Pacific, this is what you will do and this
5 is the way it's going to be. It is a joint
6 relationship and a joint operating process between all
7 of the employees of both companies to put together
8 this new organization, and I think that's the key
9 difference. It's not so much a dictating what it will
10 be but a negotiated process throughout so that
11 everybody has a say at the table and everybody has
12 proper representation.

13 Q. Please turn to your Exhibit 6.

14 A. Yes, I have it.

15 Q. Would you agree that there are significant
16 differences between the two companies for the
17 parameters you have chosen to list in this particular
18 exhibit?

19 A. I agree there are differences but I don't
20 think the differences are significant.

21 Q. In any category?

22 A. Well, there are some like hydro production,
23 there's certainly differences there, major
24 differences, but I don't know that those would be
25 significant in terms of what we were trying to do in

00087

1 the merger. Wholesale sales you've mentioned earlier,
2 the amount of industrial customer revenues that they
3 have versus ours is certainly different and it's a
4 major difference in terms of actual numbers and
5 dollars, but it's not a significant difference
6 relative to our consideration in this merger, no.

7 Q. So the fact that Sierra has 23 percent more
8 employees than Water Power is major but not
9 significant?

10 A. Yeah, that's right.

11 Q. And the fact that Water Power's average
12 fuel cost is nearly one half of Sierra's average fuel
13 cost on a cents per kilowatt basis is major but not
14 significant?

15 A. That's right.

16 Q. And the fact that Sierra depends on
17 industrial customers for a 32.5 percent of its
18 electric revenues while Water Power's industrial
19 customers account for just 12.2 percent of electric
20 revenues is major but not significant?

21 A. That's right, and the reason that I say
22 that is because they are operating in a whole
23 different region we are, and one of the reasons that
24 we look to Sierra the way we did is the
25 diversification that some of those numbers represent

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1 for us. We are so heavily hydro that it's nice to get
2 a thermal company to join with. We have very little
3 revenue from the industrial side. It's nice to get
4 additional industrial customers. They have a heavy
5 load growth, 6 to 8 percent. We have very little load
6 growth. That diversity is very, very important, so
7 that's where the significance lies. That's what I
8 mean about significant is to me those would be
9 major differences but they're not significant because
10 they are, as a matter of fact, pluses when you look at
11 joining the two companies. You see, Sierra may have
12 high rates even in terms -- and they may have high
13 costs but not compared to the neighbors that surround
14 them, not compared to the California marketplace, not
15 compared to the Arizona marketplace, not compared to
16 the New Mexico marketplace. We have low rates but
17 relative to Bonneville our rates and our average
18 system cost aren't that low, so if everything is
19 relative -- and what I'm saying is from a significant
20 perspective you have to look at the relative position
21 of the two utilities and what happens when you put
22 them together, what are the significant impacts when
23 you put these two companies together with those
24 differences that you've just outlined. And we think
25 they're significant. That's where the significant

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1 comes in. Major, yes, those are major in and of
2 themselves and by themselves, but significant, no.
3 They're significant only in terms of the benefits that
4 they bring to us.

5 MS. JOHNSTON: Your Honor, as the first
6 record requisition in line I would ask that Mr.
7 Redmond please provide Exhibit 6 with updated data for
8 year ended December 31, 1994.

9 A. We can do that.

10 JUDGE CANFIELD: That is record requisition
11 No. 1.

12 (Record Requisition 1.)

13 MS. JOHNSTON: That's all I have, Your
14 Honor.

15 JUDGE CANFIELD: Mr. Trotter, questions?

16 MR. TROTTER: We would request to go last.

17 JUDGE CANFIELD: That won't be long by the
18 estimates. Did you have questions, Mr. Pope?

19 MR. POPE: We do not.

20 JUDGE CANFIELD: And Ms. Williams, do you
21 have questions?

22 MS. WILLIAMS: Yes, I do, just a few.

23

24

25

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1 CROSS-EXAMINATION

2 BY MS. WILLIAMS:

3 Q. Good morning, Mr. Redmond.

4 A. Good morning, Ms. Williams.

5 Q. As you probably know, I'm representing
6 Northwest Conservation Act Coalition and Spokane
7 Neighborhood Action Program. I have just a few
8 questions based on your testimony. Calling your
9 attention to page 31 and page 32 of your testimony,
10 your answer which begins at the bottom of page 31 at
11 lines 33 to the end and continues through the rest of
12 that answer on the top of page 32.

13 A. Yes.

14 Q. It's fair to say that you're characterizing
15 a portion of Water Power's corporate philosophy in
16 this answer, are you not?

17 A. Yes.

18 Q. In your mind, is there a distinction
19 between community affairs and economic development?

20 A. That's an interesting question. I think
21 that a utility has a responsibility to be involved in
22 the community and one of the chief responsibilities,
23 certainly in our service territory than most service
24 territories, includes that involvement in economic
25 development, and to a certain extent, depending on how

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1 you define community affairs, they are both equal and
2 they both are -- one is part of the other.

3 Q. Could you perhaps -- since you used both
4 phrases in your answer, could you help me understand
5 how -- what you meant by the term community affairs?

6 A. Well, by community affairs here, we mean an
7 active participant in the well-being of the community.
8 What that includes is the educational system, which is
9 also part of the economic development system. It
10 includes the charitable organizations which are also
11 part of the economic development system. It includes
12 support for all of the activities within the community
13 including something like Project Share which is our
14 fuel offset program where customers contribute so much
15 a month to help the underprivileged with their fuel
16 bills. All of that, that and working with the
17 agencies, working in terms of demand side management,
18 whatever you're doing in the community, is all part of
19 community affairs, and they're also, by the way, like
20 I say, also part of economic development.

21 Q. I understand your answer to be that
22 community affairs overlaps economic development. Is
23 there an aspect of economic development which would
24 perhaps -- you could separately describe?

25 A. Separate from community affairs or just

00092

1 what economic development is?

2 Q. If I understand your answer you've listed
3 them as two separate concepts and you've described
4 quite adequately the areas in which they overlap. I'm
5 wondering if there is a separate portion of Water
6 Power's activities that you would characterize as
7 economic development as separate from --

8 A. Okay, yes. The answer to that is we do
9 have a separate entity in our company that works in
10 the economic development area. Specifically their
11 objectives are to work with different community
12 organizations, to facilitate the economic development
13 activities. We spend approximately \$600,000 a year in
14 our system and that includes Oregon, Idaho, Washington
15 and California on economic development activities. We
16 support groups like Momentum, which is a Spokane
17 economic development organization; Jobs Plus, which is
18 a Coeur D'Alene, Idaho economic development
19 organization, Moscow, Idaho, Pullman, Lewiston,
20 Clarkston; Sandpoint Unlimited, which is an economic
21 development organization.

22 We support all of those entities in helping
23 to recruit new businesses to our communities from
24 other parts of the country as well as to work with
25 existing businesses to retain and help those existing

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1 businesses grow. So we do have a separate economic
2 development office, if you will, or department, but in
3 reality everything that we're doing and everything
4 that that department does, even in the small
5 communities where we have small community groups
6 working on economic development, that again, as I say,
7 is certainly part of the overall benefit of the
8 community.

9 Q. And again, looking at your answer on page
10 32 of your testimony, at lines 4 and 5, you emphasize
11 that the company understands and appreciates the
12 importance of utility participation in community
13 affairs and economic development. Would you emphasize
14 for me the distinction between the importance of a
15 utility participating in these two areas of the
16 community as opposed to any other local business
17 participating --

18 A. I think everybody has a, if you will, an
19 obligation, if you're part of the community to be
20 involved in the community, but it's my feeling that
21 the utility has an even higher obligation to do that,
22 and the main reason is because most of, if not all, of
23 the customers in those communities -- of the citizens
24 in those communities are customers of our company, and
25 therefore, it is in their best interests that we take

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1 an active role and, by the way, it's in our best
2 interests, too, that we take an active role. So it's
3 not -- and I think the same can be said for any other
4 business in the community. If you're going to live
5 and work in that community then you have to
6 participate.

7 One of the things that I meant in terms of
8 participating in community affairs is the active
9 participation of the employees in those community
10 affairs. You see, we have some very talented people
11 in our company and it's my theory that they should be
12 involved in the community to enhance the area in which
13 they're living and their children are growing up and
14 being educated, et cetera. So hopefully that helps.

15 Q. And your last sentence in that particular
16 answer is, "The company has developed an understanding
17 and appreciation of the needs of smaller communities."
18 And again, in your answer I think you would agree that
19 you point out that historically the company has served
20 smaller communities throughout the inland northwest.
21 Is there anything in particular about the fact that
22 these are small communities in the inland northwest
23 which has affected the company's practices or
24 policies, particular kinds of economic development,
25 and again, particular kind of civic involvement?

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1 A. Certainly. We found early on in the
2 economic development that the smaller communities did
3 not have resources, and by resources I mean not only
4 dollars but also talent within those small communities
5 to draw on for a viable economic development program,
6 so we put together a program that would link a number
7 of small communities together into one group and
8 therefore multiply their opportunities, excuse me, for
9 resources, to make their economic development more
10 successful, and we have some great success stories as
11 a result of that, but just that activity alone has
12 assisted small communities.

13 We also then put together an organization
14 that included memberships from all of the communities
15 in our service territory, and I wish I could remember
16 the name of it now, I'm sorry I can't, but it is
17 the Inland Northwest Partnership, I believe it's
18 called, and it includes members from all economic
19 development activity of all of the communities in
20 Eastern Washington, Northern Idaho that are in our
21 service territory, and that's been a very effective
22 organization in terms of these communities coming
23 together to talk about what can be done in their small
24 areas, with their limited resources, to encourage
25 economic development and to help them grow and be

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1 vital communities.

2 Q. And am I correct in assuming that some of
3 these items are what we call below the line, they're
4 paid for by shareholders as opposed to --

5 A. That's an interesting question because I
6 have to tell you that we have not been in a rate case
7 since 1987. I probably mentioned that once or twice
8 earlier today, but -- and as a result a lot of the
9 economic activities that have occurred since that time
10 have not really been ruled on. I have to tell you
11 also that it is my position that those economic
12 activities, particularly economic development, is done
13 for the betterment of the customers that we serve in
14 our service territories in terms of the positive
15 results that it can have upon their rates, upon other
16 factors, so it would be my position if we were in a
17 rate case -- and I don't know how staff would agree
18 with this or not, but it would be my position that
19 those should not be below the line, that they are
20 justified expenses in terms of the results that are
21 achieved.

22 Q. To your knowledge, does the company engage
23 in charitable giving?

24 A. Oh, yes.

25 Q. And could you -- are you a corporate

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1 officer who participates in either the decision making
2 on priorities for charitable giving?

3 A. Yes. We have a committee that is formed,
4 and I'm one of those, and we meet to discuss the
5 larger contribution requests that come to the company.

6 Q. And could you just give us an idea of what
7 again -- strike that.

8 Are these charitable contributions items
9 that we would ordinarily think of as below the line?

10 A. I believe that in tradition they have been
11 below the line, yes.

12 Q. And so am I correct in assuming that the
13 company undertakes these because they believe that
14 they are in the overall public interest?

15 A. That's correct.

16 Q. Could you describe what some of those
17 charitable -- just by category, the kind of things the
18 company is --

19 A. United Way is one charity. We do a lot of
20 work in education both K through 12 secondary
21 education and higher ed. We support any number of
22 other organizations. I think there was -- and I don't
23 have the -- there was a data request that outlined
24 that, and we could go through it in great detail, but
25 those are some of the key areas that we concentrate on

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1 with our charitable contributions.

2 Q. And if I recall correctly you also
3 encouraged volunteerism by your employees?

4 A. That's correct.

5 Q. And do you encourage them by workplace
6 solicitations or by giving them paid time off?

7 A. In many cases, particularly United Way
8 and other cases, they are given paid time off to
9 participate in those activities, yes.

10 Q. And am I correct in assuming that United
11 Way has been focusing primarily upon health and family
12 care issues, child care issues?

13 A. That's correct. I think that in the last
14 five years -- well, goes back more than that. In the
15 last seven years the United Way has been headed by one
16 or more Water Power executives in Spokane county.

17 JUDGE CANFIELD: Ms. Williams, let me know
18 if you're almost through. We're going to be taking a
19 break pretty quick.

20 MS. WILLIAMS: Well, it would certainly be
21 efficient to finish at the conclusion of my questions.
22 Can I have another five minutes or would that be
23 inconvenient?

24 JUDGE CANFIELD: You're already beyond what
25 you had initially anticipated. You have no more than

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1 five minutes then? Let's go ahead and wrap that up
2 then. Then we'll take our break. Go ahead.

3 Q. At line 12, I think on page 32, you
4 indicate that you believe that on a cultural level
5 Sierra Pacific is similarly interested in or has
6 developed measures for small town economic
7 development?

8 A. Yes. The interesting thing about our two
9 service territories is their similarities, right.

10 Q. And in your last line in your answer there
11 you do indicate that that's an area in which the
12 corporate philosophy meshes well. Could you just
13 perhaps illustrate one or two other areas where the
14 corporate philosophy or is that really covered in the
15 exhibit that Ms. Johnston handed out, Exhibit 49
16 there's a page 13 on values. Would that summarize the
17 values?

18 A. The values on that document that Walt and I
19 outlined are not a total list of values that we feel
20 the Resources West should have, but if you turn to
21 page 13 of that document, they are values that were
22 created by the management teams, the executive
23 management teams of both companies, and we've laid
24 them side by side, and you can see that in an answer
25 to your question, yes, community involvement,

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1 community service is part of both of those
2 philosophies and values.

3 Q. And you're familiar with the proposed
4 prefiled testimony of Mr. Higgins in this case?

5 A. Yes, I am.

6 Q. Turning to page -- do you have that there?

7 A. I believe I do.

8 Q. Turning to page 5 of Mr. Higgins's prefiled
9 testimony describing certain aspects of Sierra
10 Pacific's philosophy, perhaps beginning at line 5.

11 Actually all of the answer starts at page 5. Sierra
12 Pacific, Mr. Higgins describes the environmental
13 committee. Does Water Power share these environmental
14 goals as part of its corporate philosophy?

15 A. Oh, yes. We have a board environmental
16 committee as well that monitors all of the activities
17 that are relative to the Water Power environment.
18 Now, we have some different issues of course than
19 Sierra does because we're not a thermal-based company,
20 but nonetheless, we also have a board environmental
21 committee that meets regularly and reports quarterly
22 to the board of directors.

23 Q. Would you say that that board environmental
24 policy shares some of the attributes Mr. Higgins
25 describes such as adopting progressive environmental

00101

1 policies?

2 A. Surely, absolutely.

3 Q. Effective programs for waste reduction?

4 A. Yeah. We would share that.

5 Q. You do not presently have a program for
6 waste reduction?

7 A. Well, it depends on what kind of waste
8 reduction you're talking about. Like I say, they've
9 got a little different issues that affect them because
10 of the type of resources they have. We're basically
11 hydro and the thermal resources that we own are only
12 partial ownership, and the operation is for others,
13 and so depending upon what kind of waste you're
14 talking about, we certainly have -- and on that line
15 we could go on for quite a while on the different
16 kinds of waste, but basically, yes, we have an
17 aggressive attitude toward proper disposal of any
18 kind of waste.

19 Q. And is that also true for recycling, a goal
20 of recycling that's mentioned?

21 A. Yes, it is.

22 Q. Does the company have a policy on land use?

23 A. Yes. When you say a policy, I don't know
24 if it's a written policy but we certainly have
25 policies that we follow.

00102

1 Q. I have only a few more questions and that
2 will conclude my questioning, Mr. Redmond. Would you
3 agree that payroll is an important element in local
4 economic community affairs?

5 A. Yes.

6 Q. Would you agree that local purchasing is
7 important to local economic development?

8 A. Yes.

9 Q. Would you agree that local contracting, to
10 the extent the company can engage in local contracting
11 out, is important to local community development?

12 A. It is if it can be done, right.

13 Q. And I take it that you would agree that
14 maintaining healthy main street business, Chamber of
15 Commerce type businesses is important to local
16 community development?

17 A. Yes.

18 Q. Do you have any thoughts as to how the
19 reductions in force will affect payroll, local
20 purchasing and contracting, main street business,
21 within the smaller communities that you serve?

22 A. Sure. First of all, remember that most of
23 the smaller communities in our service area will be
24 virtually unaffected by this merger, and I say that
25 because two thirds of the company is unimpacted by the

00103

1 merger itself. The other one third will be. We
2 anticipate fewer employees as a result -- or positions
3 I should say -- as a result of this merger. As you
4 well know, from reading our testimony we have been --
5 we have worked very hard to increase the number of
6 open positions by attrition. Lowering of the number
7 of people in our employment will certainly have an
8 impact on the community providing that, number one,
9 our outplacement services to those employees is not
10 effective, that is to say, we don't find them another
11 job in the community that's every bit as good as the
12 job they have now, and we think that's possible to do
13 and particularly with our economic development,
14 successes in the past, we think that can happen.

15 So it's a little bit unknown what that
16 impact might be, but there is a bigger benefit there
17 for all of these other companies and the community, et
18 cetera, that will be achieved by the merger and by the
19 coincidence of some position reductions and that is
20 the stabilizing of rates. Giving our customers the
21 opportunity to be more competitive in the global
22 marketplace by knowing what their rates are going to
23 be and having very competitive rates because more and
24 more of their product contains an element of the cost
25 of energy. So I think the overriding benefits on the

00104

1 long term offset any short-term issues on loss of
2 revenues in the community because of some positions
3 when we don't even know what those might be or have
4 any idea what the differences might be relative to
5 those positions in terms of who they might be employed
6 by.

7 Q. Just backing up for a moment about the
8 company's environmental group --

9 MR. MEYER: Excuse me. This is not so much
10 by way of an objection but an observation. I'm not
11 trying to cut off the flow of information, although I
12 thought that Ms. Williams's interest in this
13 proceeding was that of representing the Conservation
14 Coalition, and so far we haven't really touched on
15 issues that I thought were issues germane to her
16 client. Observation, not an objection.

17 MS. WILLIAMS: Well, thank you for that
18 observation.

19 JUDGE CANFIELD: What's that?

20 MS. WILLIAMS: I thanked Mr. Meyer for his
21 observation.

22 JUDGE CANFIELD: And you did indicate that
23 you had just a question or two more, so with that, any
24 further questions, then?

25 MS. WILLIAMS: Yes, I do. Thank you.

00105

1 Q. Going back for a moment to the company's
2 environmental policies. Those are not required by
3 this Commission, are they?

4 A. I guess I can't tell you whether there's a
5 ruling or not. I would think that although the
6 Commission may not have a specific order or something
7 that requires, I would think that they nonetheless
8 would be very interested that any of the utilities
9 they regulate would have a strong environmental policy
10 and would be acting in the best interests of the
11 people that they serve and the people that this
12 Commission is responsible to.

13 Q. And therefore you consider your
14 environmental policy to be in the public interest?

15 A. I certainly do.

16 MS. WILLIAMS: I have nothing further.
17 Thank you.

18 JUDGE CANFIELD: With that we'll take our
19 morning break. Let's come back at 11:20.

20 (Recess.)

21 JUDGE CANFIELD: We're back on the record
22 now after our morning break, and we had just concluded
23 questions from Ms. Williams and next is Mr. Trotter.

24 MR. TROTTER: Thank you.

25

00106

1 CROSS-EXAMINATION

2 BY MR. TROTTER:

3 Q. Mr. Redmond, a couple of follow-ups first.
4 You testified at some length about the company's
5 economic development efforts, and I believe you said
6 that that was for the betterment of the customers you
7 served. Do you recall that testimony?

8 A. Yes.

9 Q. Am I correct then that the company's
10 marginal cost is less than its average cost?

11 A. Well, you know, lately we haven't built
12 anything so our -- yes, you would be correct.

13 Q. And you also testified with respect to
14 Sierra Pacific's high cost and high rates that they
15 were in a wholly different region than Water Power.
16 Do you recall that?

17 A. Yes.

18 Q. And would it follow then that they're in
19 different markets?

20 A. Yes.

21 Q. Do you recall that -- well, the company
22 currently has submitted testimony before FERC
23 involving this merger; is that right?

24 A. That's correct.

25 Q. Didn't your witness before FERC include

00107

1 Water Power and Sierra in the same market?

2 A. I'm afraid I can't answer that question. I
3 haven't reviewed that testimony.

4 Q. You also were asked some questions from
5 staff regarding negotiations with Nevada regarding
6 employment levels, and your response was that they
7 were seeking information and it's coming in mid March
8 or words to that effect. Do you recall that
9 testimony?

10 A. Yes. With the Nevada Commission, yes.

11 Q. Am I correct that neither Water Power nor
12 Sierra, to your knowledge, has offered any benefits to
13 any other jurisdiction that exceed the benefits
14 offered to Washington as a result of this merger and
15 perhaps we need to define benefits on a proportional
16 basis?

17 A. Yeah. If you're talking about the
18 allocation of the \$450 million or so, I think John
19 Buergel would be the right one to answer that
20 question, but our premise from the beginning has been
21 that the Washington customers, as a matter of fact the
22 Nevada customers as well, would be no worse off than
23 they are now with this merger. As a matter of fact,
24 they would benefit from the merger relative to some of
25 the benefits that they've iterated in our testimony.

00108

1 Q. Those are two sort of different issues.
2 One could argue -- and I don't think it was the point
3 of your answer -- one could argue that Washington
4 ratepayers could be better off but ratepayers in other
5 states are much, much better off. Do you see my
6 point? It's the degree of benefits that are offered,
7 but let me ask the question with that understanding.
8 It's the intent and policy of the company to, as near
9 as possible, to have an equitable sharing of benefits
10 among the jurisdictions?

11 A. That's correct.

12 Q. And if one state demands a benefit that's
13 out of proportion, your company will not accede to
14 that. Is that correct?

15 A. To the detriment of other states you mean?

16 Q. Yes.

17 A. No. I think in fairness it has to be -- it
18 has to be an equitable sharing, that's correct.

19 Q. And it's your intent that that policy is
20 being maintained through the --

21 A. I think it's the intent of both companies
22 that that happens.

23 Q. Now, to the extent that -- let's assume
24 that the Washington hearing process and decision
25 process occurs before a decision in other

00109

1 jurisdictions, and the Washington Commission sets
2 forth three conditions of approval, just to pick a
3 number. Do you have that assumption in mind?

4 A. Yes. That the Washington Commission sets
5 up three conditions of approval.

6 Q. And then later another Commission approves
7 the merger but establishes those three plus several
8 other conditions. Are we on the same wavelength here?

9 A. Yes.

10 Q. Would the company accept as a condition
11 from this Commission that this Commission have the
12 option of reopening the docket to determine whether
13 additional conditions imposed in other states ought to
14 be imposed in Washington?

15 A. Well, I think that this Commission has a
16 responsibility to insure that the customers of Water
17 Power in Washington state are, as I mentioned earlier,
18 are getting an equitable share and that they are no
19 worse off because of the merger, and so, you know, if
20 that were to happen, could they reopen -- depending
21 upon what the conditions are, they might want to
22 reopen.

23 Q. And the company wouldn't object to that?

24 A. If we felt that there was reason to believe
25 that that was happening, no, we would not. We would

00110

1 hope, by the way, of course, that none of that
2 scenario would occur because we would like to get this
3 behind us and move forward. While you're looking
4 there, could I go back to that marketplace question
5 again and maybe clarify my answer a little bit.

6 Q. On the FERC?

7 A. Since you mentioned the FERC issue on the
8 marketplace.

9 Q. Sure.

10 A. As I say, I have not, sorry to say, read
11 the FERC testimony at this point, but when I talked
12 about marketplaces I was looking at the marketplaces
13 relative to our sales in the nonFERC traditional
14 areas, in the residential, commercial, industrial. If
15 you look at our marketplace, that is, Resources West
16 Energy's marketplace, which is what FERC would be
17 concerned about, then we are in the WSCC marketplace,
18 which is the same marketplace for all of us. We
19 currently, Water Power, sell energy to Sierra, to
20 Arizona, to Public Service New Mexico, to the
21 California utilities, and et cetera. So, from the
22 standpoint of the WSCC and that kind of a marketplace,
23 a FERC-defined marketplace, we are in the same
24 marketplace.

25 Q. And to the extent that competition has

00111

1 increasing inroads, the marketplace divisions are
2 going to be further diffused, are they not?

3 A. Yes, that's correct.

4 Q. Now, do you recall giving a presentation to
5 this Commission at a weekly meeting in September of
6 1992 where you set forth at some length the company's
7 business plan and policies?

8 A. Yes, I do.

9 Q. And in that statement you stated that your
10 company was going to reduce your cost per customer
11 from, at that time, currently a little over \$270 to
12 \$247 by 1996 and that you are going to do that through
13 cost savings and one other way you are going to do
14 that is to reduce approximately 140 positions in your
15 company through attrition by 1996?

16 A. Yes.

17 Q. And by cost per customer you are referring
18 to O and M per customer?

19 A. Yeah. Those are all the operational costs
20 per customer, correct.

21 Q. And so the company embarked upon those
22 goals and upon that course?

23 A. Yes, we did.

24 Q. And September of '92, it was before this
25 particular merger was even contemplated; is that

00112

1 right?

2 A. Yes.

3 Q. Would I be correct that those particular
4 budget goals would be included in the company's budget
5 -- budgeted results for 1993 through 1996?

6 A. Yes.

7 Q. Would it also be true that those cost
8 savings and work force reductions would not be merger
9 benefits since they were implemented outside the
10 context of the --

11 A. They are not included in the merger
12 benefits that we have calculated in this case. Those
13 merger benefits represented by the \$450 million are
14 really the duplications that are brought about by the
15 merger itself and only related to that. I might add
16 that we have bettered the \$247 per customer by the end
17 of 1994, so we're at least a year ahead of that target
18 that we set for ourselves.

19 Q. And so none of the 140 positions that you
20 were going to reduce through attrition were positions
21 that turned out to be duplicative of the Sierra
22 operations?

23 A. No. As a matter of fact, those 140
24 positions were never identified and it was our
25 anticipation that in those four years that there would

00113

1 be about 140 positions opened up through attrition.
2 As it turned out, there were less on a net basis
3 because we found that things like hydro relicensing
4 have required the addition of significant number of
5 people to our payroll, and other factors, demand side
6 management, during that time came up to an extensive
7 level, and those people were added to the payroll as
8 well. So although we have decreased our number of
9 positions since 1992, I'm sorry to say that we did not
10 make our 140 and will not make the 140. On the other
11 hand, because of other things we are doing, as I
12 mentioned, we have exceeded the goal of the \$247 by
13 '96 making it at the end of '94.

14 Q. Further in your comment to the Commission
15 you talked about the aggressive DSM program that you
16 were embarking upon. Do you recall that?

17 A. Yes.

18 Q. Are you suggesting that your employment
19 levels for your DSM programs were not taken into
20 account in your 140 position policy or proposal?

21 A. We did not anticipate that the program
22 would be quite as successful as it was, and therefore
23 we ended up with more people than we originally
24 anticipated in that program.

25 Q. Now, the company does customer surveys from

00114

1 time to time, does it not?

2 A. Yes, we do.

3 Q. And those are surveys both as to customer
4 quality of service type surveys?

5 A. Customer satisfaction, uh-huh.

6 Q. And the company also conducted a survey of
7 its customers regarding the proposed merger, is that
8 right, to determine customer reactions to the
9 company's proposed merger?

10 A. I believe it was part of another survey and
11 we added those questions on to that survey, but I'm
12 not real sure about that.

13 Q. Did the company -- has the company -- the
14 one that was provided to us was dated in August of
15 1994. Does that refresh your recollection?

16 A. No, but was that a data requisition?

17 Q. If the witness could be referred to
18 deposition request 21, company's response. Do you see
19 that?

20 A. Yes, I have it now.

21 Q. And it's entitled Washington Water Power
22 Residential Customer Survey, Customer Reactions to the
23 Proposed Merger with Sierra Pacific, August 1994?

24 A. Yes.

25 Q. Is this the only survey the company has

00115

1 conducted regarding this issue?

2 A. To my knowledge it is, yes. I don't know
3 of any others that we've -- we conduct surveys all the
4 time and I don't always see the results. They're
5 designed for different reasons, for different groups
6 in our company, and I don't always see the result of
7 those.

8 Q. Turn to page 4 of that survey. Under key
9 performance attributes, the attributes are "planning
10 for future needs, minimize outages, treats you as a
11 person, quick response to outages, listens to you,
12 advanced notice of activity, there when they say they
13 will be, keeps in touch/informed. Keeps rates stable
14 and contribute to community." Is that right?

15 A. Yes.

16 Q. And the study concluded that, overall, WWP
17 customers feel that the proposed merger will have a
18 negative impact on performance for all 10 of the
19 attributes. Is that the conclusion?

20 A. Yes.

21 Q. Has the company done anything in response
22 to this -- to these results regarding customer
23 conceptions?

24 A. Well, other than communicating with
25 customers -- because we really felt at this time that

00116

1 the results of the survey were more because the
2 customer did not understand what the merger was about,
3 what the benefits would be, and so we have conducted a
4 -- I have given a number of talks in communities. We
5 have conducted a communications program that addresses
6 the issue more thoroughly, and I can tell you that the
7 reception that I have received in our major
8 communities that we serve has been very, very
9 positive. Many of those meetings with the primarily
10 business community have been also attended by Walt
11 Higgins in our service area.

12 Q. Now, there was a survey in July of '94, or
13 at least the report is in July of '94, regarding --
14 excuse me -- in Sierra Pacific's territory; is that
15 right?

16 A. I guess so.

17 Q. Did you review that?

18 MR. MEYER: Do you have reference to a --

19 MR. TROTTER: Starts on page 22.

20 Q. I guess my question to you is, do you have
21 an explanation as to why Sierra Pacific's customers
22 gave the opposite, generally opposite, reaction than
23 the Water Power customers?

24 MR. MEYER: We're still not finding your
25 reference.

00117

1 MR. TROTTER: Page 27 is where I'm
2 referring to where it speaks to Sierra Pacific's
3 overall favorability.

4 A. Yes.

5 Q. Do you know why Sierra Pacific's ratepayers
6 would have --

7 A. You know, I don't know precisely why but I
8 think that I can tell you what the general perception
9 was when we first announced the merger, and maybe that
10 has something to do with particularly the residential
11 customer, which is most of this survey reaction, and
12 that was that what was going to happen was that the
13 customers of Sierra were going to get an influx of
14 hydroelectric energy that was, as pointed out earlier
15 in the testimony, significantly less in terms of cost
16 than their thermal-based energy, and therefore their
17 perception, and obviously wrong perception, was that
18 there was going to be a melding of the two rates, and
19 they knew what our rates were and they knew what they
20 were paying, and therefore our customers say, gee,
21 this is not a very good deal, and their customers say
22 it's a great deal.

23 What our communication has tried to do
24 since that time is to define the true picture of what
25 we're doing because we anticipated that would be an

00118

1 issue, and that is that the divisions will remain the
2 same, but the resources, that Water Power will be
3 dedicated to Water Power customers and vice versa in
4 Sierra, and I think with that understanding a survey
5 like this would have different results, but the
6 general perception was, you know, if I live down in
7 Reno, what a good deal, I get all that hydro power.

8 Q. I reviewed the Sierra results, and I didn't
9 see any reference to hydro.

10 A. No, but I think that, you know, that's the
11 first question that I got out of the box in Spokane
12 and the first question that we got when we had a news
13 conference in Reno was, oh, well, then you're going
14 to blend the hydro energy with the thermal energy of
15 Sierra, and so what happens to Water Power rates and
16 what happens to Sierra rates. That was the perception
17 of this merger, and mergers tend to give that
18 perception out there that that's what's going to
19 happen, and we have defined this obviously as entirely
20 different than that. That's the only explanation I
21 can give for this. Might be others.

22 Q. Does the company have any plans to conduct
23 a follow-up survey?

24 A. I don't know.

25 Q. And the company does rely on its customer

00119

1 perception surveys in areas relating to quality of
2 service, does it not?

3 A. In customer satisfaction, yes, we do.

4 Q. With respect to resources of Water Power
5 being obtained by Sierra, to the extent that the
6 company has surplus power or excess power to sell,
7 Sierra Pacific is certainly eligible to purchase?

8 A. At market rates.

9 Q. However that's defined?

10 A. Yes.

11 Q. Do you have any definition of market rate
12 that might help us here?

13 A. I think that market rate would be a rate
14 that Water Power customers would expect to receive
15 for the power no matter who they were selling it to,
16 so the market rate would be defined as that.

17 Q. Do you know how to measure that?

18 A. You would measure it by the competitive
19 arena out there and what the proposals were and what
20 the price was going for. It varies every day and
21 sometimes hourly.

22 Q. And the products aren't always the same,
23 are they?

24 A. Correct. Based on capacity, based on
25 energy and duration, time.

00120

1 Q. And so a particular contract for a
2 particular type and quality of power may not have an
3 equivalent in the market?

4 A. That's correct. That's correct. It may
5 not.

6 MR. TROTTER: Those are all my questions.
7 Thank you.

8 JUDGE CANFIELD: Commissioners, questions
9 for Mr. Redmond?

10

11 EXAMINATION

12 BY CHAIRMAN NELSON:

13 Q. Good morning, Mr. Redmond.

14 A. Good morning, Chairman Nelson.

15 Q. One follow-up to an earlier question from
16 Ms. Johnston. What do you anticipate doing with the
17 water company? Are you going to keep it?

18 A. One of the real concerns that I had when we
19 first looked at Sierra was the water business, and as
20 pointed out by Ms. Johnston, I was very concerned
21 about water because 13 years ago I was directly
22 involved in the sales of our water system. After I
23 went to Reno and spent some time there looking at
24 their utility operations and the northern Nevada
25 climate, both economic climate and political climate,

00121

1 it became very clear to me that the water business in
2 Nevada is totally different than the water business in
3 Eastern Washington, and water rights play a very
4 important role in the Nevada economy and they play a
5 very important role in economic development in Nevada.
6 And for that reason I came to the conclusion that
7 there was no problem in this merger with keeping the
8 water system, as certainly in the near term and maybe
9 the long term as well.

10 Q. Very well. Thank you. Now, with respect
11 to maps that you've nicely blown up here, do I
12 understand that the gas properties are simply the
13 black square in Nevada and the round circle in
14 California, that's your service territories?

15 A. Our natural gas territories are the lightly
16 shaded areas, correct, and the round circle in
17 California is South Lake Tahoe and then of course the
18 Oregon properties and the Eastern Washington and the
19 Idaho properties.

20 Q. I feel comfortable with what I know of the
21 old system, the CP National acquisition.

22 A. Right.

23 Q. And so that's the extent of the natural gas
24 service territory in the Nevada/California?

25 A. Correct. Sierra has only 86,000 -- maybe

00122

1 more now -- natural gas customers so it's pretty small
2 and they're all in the Reno/Sparks area, service area,
3 as indicated by that map.

4 CHAIRMAN NELSON: Now, the next question,
5 on the electric service territories, I've looked at
6 the map and at the big map and I'm having a hard time
7 identifying the transmission assets of the combined
8 company. And I don't know exactly how to proceed with
9 this, Counsel, if Mr. Redmond can simply point to what
10 they are if that would be good enough for the record
11 or if I should ask for maybe another chart, because I
12 think -- well, let me ask the question.

13 Q. I think you have listed on here
14 transmission lines that would be owned by others?

15 A. Yes. And maybe by just talking it through
16 would be better so it would be on the record, but
17 coming down from Idaho, and from memory I can't tell
18 you exactly how many lines and Walt Higgins could do
19 that for you, but there is a tie with Idaho from the
20 north that currently exists and that has to do with
21 the Valmy plants, and the interface with Valmy, Sierra
22 Pacific and Idaho Power jointly own the Valmy power
23 plant and Sierra operates that. Then to the east
24 there are ties with Utah Power and Light or Pacific
25 Power Corp to the east. And then directly to the west

00123

1 there are ties with Pacific Gas and Electric, two
2 transmission lines, I believe, there. And then as you
3 go to the southwest there are ties with all of the
4 southern California utilities, Southern Cal Edison,
5 Los Angeles Department of Water, et cetera, through I
6 think it's 250 KV lines that go to California.

7 In addition to that, you see going from
8 Reno area up through northeastern California the
9 dotted line that's the Alturas, proposed Alturas
10 transmission line that terminates in Alturas or
11 Alturas area and that termination will then give us
12 access to all of the other lines, Pacific lines,
13 Bonneville lines, others that then go on down to
14 California and throughout the western states. So
15 generally that helps. That's what it is.

16 Q. And are there any lines north of the border
17 from Water Power into British Columbia or --

18 A. Not directly. We have a presidential shall
19 permit to build a line to British Columbia up north of
20 our service territory and with the politics in British
21 Columbia for the last couple of years we've had a
22 difficult time in working with the right people to put
23 that agreement together. One of the things that we
24 think can occur because of this merger in the future
25 is that opportunity to construct that line north to

00124

1 tie to British Columbia and Alberta bringing that
2 hydro and low cost fossil-fired fuel down through our
3 system into Idaho and then on into Nevada and other
4 areas as well. And we think there would be a lot of
5 partnerships in putting that line together, but at
6 this point we have not been able to put together an
7 agreement with BC Hydro.

8 Q. In your opinion, is the acquisition of
9 these transmission assets of great strategic value to
10 the combined company?

11 A. Oh, absolutely. You know, as you look at
12 what's going to happen in the future, and part of
13 our vision is based on that, transmission will be a
14 key factor in how you manage your resources. Now,
15 that can be individually owned. That can be
16 transmission that is jointly owned as well by a number
17 of different utilities, let's say RTGs might be a
18 variation of that, but we think that transmission
19 access will be a major factor in the future.

20 Q. I think it's interesting, too, because
21 we've just discussed in various policy forms the
22 reality of the Bonneville presence in the northwest,
23 and, as some call it, its continuing monopoly on
24 transmission to the south. Does this give you, do you
25 think, a competitive advantage or at least a

00125

1 competitive evenhandedness with that transmission
2 owner being a transmission competitor yourself?

3 A. The answer to that is yes. We think that
4 it makes us very competitive with Bonneville or
5 anybody else, for that matter.

6 Q. Maybe I should ask the question this way --
7 sorry to interrupt -- does it free you from dependence
8 from Bonneville? Does it really give you a way to
9 control your own destiny and not have to deal with
10 them so much?

11 A. There's no question that the whole purpose
12 of this merger is controlling our own destiny and
13 transmission is part of that. We would not be
14 dependent upon Bonneville, but we would use Bonneville
15 lines just as we are currently negotiating the
16 transmission link for this merger with both Idaho
17 power and Bonneville, and as a matter of fact we have
18 memorandums and understanding now with both groups,
19 and to a great extent, you see, Idaho and Bonneville
20 are both competitors. So I think what you're going to
21 find is that the owner of the transmission will not
22 only be a competitor but will also be able to make
23 agreement with them.

24 Conversation I had with Randy Hardy the
25 other day confirmed that, and Randy and I were talking

00126

1 about competition and what the changing environment
2 was and his concern about his rates and where they
3 were going. And we were talking about the fact we
4 were both bidding in Snohomish, we were both bidding
5 in Clark County, both bidding in -- and some of his
6 customers were coming to us and were making other side
7 deals there. And his comment was, well, he said,
8 there are a lot of things we can work together on and
9 we'll do that but when we're out there competing for
10 customers and other things then we'll both be very,
11 very competitive.

12 And I think that's what the future will
13 hold is that there will be opportunity to work
14 together for our benefit and for their benefit, just
15 like we do the same thing with our transmission today.
16 And Bonneville will continue to do that. Will we
17 be dependent upon Bonneville for access in all
18 markets? No. We'll have other opportunities to do
19 that without Bonneville, but we will no doubt work
20 with them just as we are doing currently.

21 Q. One question on the corporate structure. I
22 understand it's a dynamic future, and I want to
23 explore the interrelationship of the retail utilities,
24 keeping their own names and identity, and in the
25 future line of business units. Having gone through

00127

1 many iterations of corporate structure with the
2 dominant -- the region's dominant telephone company is
3 why I'm asking this question. Is it your intent to
4 keep the Water Power presence and name brand on
5 wholesale transactions, for example?

6 A. Probably not.

7 Q. Will that be called Resource West?

8 A. I will guess that their best opportunity of
9 marketing, following the line of Mr. Trotter's
10 question, you know, the marketplace out there is the
11 entire west, and so branding it Water Power/Sierra
12 would not make as much sense to me as Resources West.
13 I think if I'm buying from a wholesale marketing team,
14 I would like to know that the resources behind this
15 agreement are not just Water Power but they are also
16 Sierra, and Resources West would give that perception,
17 so I suspect that's the way that particular operation
18 would work.

19 Q. Now, with the line -- so the line of
20 business unit then would be in a direct line with the
21 retail unit then, namely Water Power and Sierra
22 Pacific. Would they be incorporated as wholly-owned
23 subsidiaries of RWE?

24 A. Well, they really would be part of. Let's
25 talk about retail for a minute. If you looked at

00128

1 retail from the perspective of a line of business,
2 then that retail organization would be much the same
3 as you see it today at Water Power, the operations
4 side. Readily have the line crews, we would have the
5 dispatchers, we would have the line foreman and
6 customer service people, but what we would do is we
7 would take the HR group that is now at corporate
8 headquarters, and we would give the line of business
9 in retail the number of HR people -- human resources
10 people -- that are required for them to do their
11 business on a daily basis. And those human resource
12 people would not report to the corporate level. They
13 would report to the line of business which is the
14 retail, residential and commercial customer group.
15 And then that would be the same for the marketing
16 people. They would be part of that group rather than
17 a separate department they would become part of that
18 group. Same would be true for legal. Same would be
19 true for any of the other support groups that are not
20 common to a number of lines of businesses that are
21 separate unto themselves.

22 That line of business then would be -- from
23 the outside would look very much the same as it does
24 now except they would have the total responsibility
25 for formulating their own business plan and the profit

00129

1 and loss of that line of business, so they would be
2 the ones to determine what kind of information systems
3 they needed, how much they were going to pay for those
4 information systems. They would be the one to
5 determine did they need a new line truck or don't they
6 need a new line truck. Based on their business plan
7 that would be coordinated with the corporate.

8 So the customer then, what the customer
9 would see in our vision of this, customer would see a
10 more friendly company. A customer would see a company
11 that had crews dedicated to a geographical area, that
12 knew those customers and knew those people and were
13 primarily responsible. They would see a company that
14 was more timely responsible for getting service than
15 we have today. You know, we're rated as one of the
16 No. 1 -- well, we call ourselves No. 1, probably not
17 No. 1 but one of the better utilities in terms of
18 customer service and satisfaction, and yet we found
19 through a survey that it takes us upwards of over a
20 month sometimes to get our customer's service and the
21 reason is the process that we need to go through.
22 Lines of business will change that and they will put
23 the decision making in the field. Very comparable to
24 the core process, re-engineering that Water Power is
25 going through. As a matter of fact, while Walt and I

00130

1 worked on our vision statement the redesign people
2 were working on their division -- or their vision.
3 When it came together it was almost virtually the same
4 thing and it was two independent looks at where we're
5 going.

6 Q. Mr. Redmond, I probably didn't ask my
7 question properly because I appreciate that view of
8 the management and employing the employees at the
9 level where the customer sees them. I guess my
10 question is more a plain old regulator's kind of
11 question, and the reference to U S WEST is the
12 creation of new business units often results in
13 accounting a cost allocation process that can be
14 quite bewildering, and I guess I see in your opening
15 pages here that Mr. Ely may be discussing or is it
16 someone else how we'll deal with some of the
17 allocation?

18 MR. MEYER: Mr. Buergel.

19 A. Mr. Buergel would on the allocation side.

20 Q. Costs and benefits across both business
21 units and the jurisdictional lines.

22 A. More probably on the jurisdictional lines
23 versus the lines of business. You know, I don't want
24 to complicate it with the line of business. I think
25 we're doing it really a lot different than U S WEST

00131

1 did. Our line of business --

2 Q. That's what I want to hear.

3 MR. MEYER: I'm sorry, I missed that. What
4 did you say, Paul?

5 A. Our lines of business are directly oriented
6 toward improving customer service, and putting
7 responsibility for the cost of doing that right at the
8 point where the decisions are made. And do accounting
9 systems have to be put together so that those managers
10 will know what the costs are, yes, they do. Do we
11 have those now, no, we don't. We're going to have to
12 develop those, so it will be a transition point. But
13 I think you see by our mission statement and by our
14 vision that we're really dedicated to serving the
15 customer. It is the philosophy of both companies that
16 if we can't serve the customer properly and we don't
17 give the customer exceptional service so that they
18 choose us -- and that's the key word, that they choose
19 us -- then we're not going to be in business very
20 long, and we need to recognize that, so we are -- and
21 the lines of businesses we think will improve that
22 relationship not make it worse. If that helps.

23 CHAIRMAN NELSON: Thank you very much. I
24 will defer to my colleagues.

25 JUDGE CANFIELD: We were targeting to take

00132

1 a break now and kind of a toss-up.

2 THE WITNESS: It's okay with me. Whatever
3 you would like.

4

5 EXAMINATION

6 BY COMMISSIONER HEMSTAD:

7 Q. Good morning, Mr. Redmond.

8 A. Good morning, Commissioner.

9 Q. First perhaps a more technical question.

10 The Water Power and Sierra Pacific will continue to
11 operate as divisions of the merged company. Did you
12 consider whether they should have been structured as
13 subsidiaries?

14 A. Yes. We looked at that and subsidiaries
15 and for kind of a holding company and we will not be a
16 holding -- couple of reasons for that. We will need
17 an exemption from the Holding Company Act and we don't
18 think that's worthwhile getting. Secondly, we think
19 we can operate as a corporate with two operating
20 divisions under that as effectively as we could with
21 subsidiaries.

22 Q. So the new company will not be subject to
23 the public utility Holding Company Act?

24 A. Not through exemption it will not. I guess
25 we're subject to it because we're a utility, but we

00133

1 are not -- we will not have a holding company,
2 correct.

3 Q. Could you broadly sketch out how Washington
4 ratepayers in this environment of relatively low cost
5 Water Power rates and high cost Sierra Pacific rates,
6 how Washington ratepayers will be in the long-term
7 protected.

8 A. Earlier I was talking about the need to
9 have more revenues per customer, more sales, if you
10 will, of electrical energy, and I think I'm getting to
11 your answer in just a minute. And what I was talking
12 about is the need to spread the fixed costs of an
13 operation over a larger number of customers, and
14 thereby the individual customer pays less per capita
15 of the overhead fixed cost, and the customer benefits
16 that way, and if you don't have growth -- and we tried
17 to give growth by mergers and acquisitions in our
18 company -- if you don't have growth and your fixed
19 costs continue to go up then the per capita or the
20 individual customer is paying more all the time. What
21 that results in eventually are rate increases and the
22 customer just simply pays more in their rates because
23 a company can only do so much to manage those costs.

24 What the merger will do is to spread those
25 costs over a larger customer base because of the

00134

1 growth rates in Sierra Pacific's territory versus our
2 territory, and because of the economies of scale,
3 because of efficiencies. For example, the customer
4 accounting system that we just developed will be
5 spread over the total company. Our customers now
6 will pick up less of that total fixed cost than they
7 otherwise would which translates for them in lower
8 rates in the future than they otherwise would have
9 experienced --

10 Q. Well, more specifically, what about the
11 fact or the reality of Water Power's historical
12 supply?

13 A. Right.

14 Q. -- is a much lower cost than Sierra
15 Pacific's? So how will Washington residents be
16 protected in access to that lower cost supply?

17 A. Because we have filed in this case that all
18 of the resources of the Water Power will be dedicated
19 primarily to Water Power customers both now and in the
20 future. Just as all of the resources of Sierra will
21 be dedicated to their customers, so we will manage
22 that on the basis of new developments, et cetera, that
23 those resources will be dedicated to the Water Power
24 customers.

25 Q. Then how will you deal with new supply?

00135

1 Will that be an asset of the merged company or will
2 that break out into, for accounting purposes, will
3 that break out into one or the other of the divisions?

4 A. Probably both. It will be an asset of the
5 merged company, but it will be dedicated to one or the
6 other divisions depending upon the allocation. An
7 example might be increasing our capacity at our hydro
8 plants. Where does that fall? Is that a benefit for
9 the corporation? Yes, it is. It's a benefit for the
10 corporate. Will it be dedicated? Will that increase
11 in megawatt hour capacity or energy be dedicated
12 to Water Power customers? Yes, it will. It is an
13 allocation process and it's something -- and there are
14 lots of scenarios that one can put together relative
15 to how the sales will go and those will have to be
16 discussed at that time, but fundamentally, the
17 resources of each company will be dedicated to their
18 respective customers.

19 Q. Water Power generates a measurable amount
20 of its revenues from wholesale sales?

21 A. Yes.

22 Q. I assume you would anticipate, then, the
23 Water Power division selling at wholesale measurable
24 amounts to Sierra Pacific?

25 A. Hopefully that will happen.

00136

1 Q. How is that going to be measured in terms
2 of advantage? In other words, at the present time, an
3 arm's length transaction arrangement, Water Power will
4 do its best to get the best price it can for its
5 wholesale sales. Will you have the same incentive to
6 do that when you're selling to Sierra Pacific?

7 A. Oh, absolutely. I think we have to because
8 we have committed in this case and in this merger
9 that the Water Power customers would be no worse
10 off because of this merger at a minimum than they
11 would otherwise would be, which says that not only
12 would help that we would sell to Sierra, but we would
13 definitely sell at market price, and as we talked
14 there are lots of ways you can define market price and
15 it's probably not going to be easy, but that is the
16 way that that transaction would be and if we're using
17 Water Power resources to make that sale then the
18 benefits of that would flow to Water Power customers.

19 Q. Well, increasingly those wholesale sales
20 are done by the day or even by the hour?

21 A. Right.

22 Q. And you're measuring advantage in terms of
23 one, two or three mills?

24 A. Right. On a brokering basis, correct. We
25 would call that brokering where we do that on a

00137

1 short-term basis and the margin is two or three mills.

2 Q. How will -- first should regulators be
3 monitoring that and if so how will they?

4 A. Well, they will be monitoring it. We have
5 also committed that as we go forward after the merger
6 that we will work with the staffs of all the states
7 and our books will be open and we will together work
8 on some of these issues that you're alluding to, and
9 that is, how do you insure that Water Power customers
10 are getting their fair part of the benefits of their
11 merger, and that it is not going somewhere else, and I
12 think that's a matter of working with the staffs and
13 working together to make that happen.

14 Q. On the transmission side Water Power
15 currently has an entitlement or a license or whatever
16 to make the connection with Canada?

17 A. Presidential permit, right.

18 Q. And I assume were that connection to be
19 made that would be very attractive in terms of being
20 able to wheel in expensive Canadian power south either
21 for your own uses or into the Western Rim.

22 A. Yes. We think so. Bonneville thinks it
23 would be, too, so they're competing with us, if you
24 will, for other -- try to make other connections, but
25 yes, it would be very attractive.

00138

1 Q. Assume for the purposes of discussion that
2 that arrangement is able to be completed. Where would
3 the benefits of that completion go? To Resources West
4 or to Water Power?

5 A. Well, I think you would have to determine
6 or you would have to take a look at what the costs are
7 involved in building the line and who paid for those,
8 and how many partners we have, where the energy is
9 coming from, where it's being utilized, would it be --
10 is all of the energy flowing through our service area
11 and other areas and then sold to a third party. And I
12 really can't give you a concrete answer to that. I
13 think that's one of the issues that have to be
14 resolved in the allocation process. Maybe John
15 Buerger could talk about it a little more
16 definitively, but it seems to me that if it's
17 purchased in Canada and is sold to a third party it
18 would be a corporate earnings and then those corporate
19 earnings would have to be allocated to the individual
20 operating divisions as appropriate, and then that's
21 where the, I guess the, rubber hits the road and you
22 say, well, okay, but what is the proper allocation,
23 and that's the question you're answering.

24 And I guess the answer -- you're asking and
25 I'm attempting to answer and the answer to that is

00139

1 simply that it would have to be worked out in my
2 mind, and there are lots of other examples that would
3 also have to be worked on between the staffs and
4 ourselves to come at a fair and proper solution,
5 recognizing that the fundamental principle that we're
6 working with on this merger is that the customers in
7 Washington state will be no worse off, as a matter of
8 fact will be better off, because of the merger and
9 that's the fundamental principle that we're looking at
10 in each of the states.

11 JUDGE CANFIELD: With that why don't we
12 take our lunch break. Let's come back at 1:30.

13 (Lunch recess.)

14

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00140

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AFTERNOON SESSION

2

1:30 p.m.

3

JUDGE CANFIELD: We're back on the record after our lunch break, and as we concluded the morning session, Commissioner Hemstad was asking questions of Mr. Redmond, and we'll pick up where we left off then.

7

COMMISSIONER HEMSTAD: I'll defer any further questions.

9

10

EXAMINATION

11 BY COMMISSIONER GILLIS:

12

Q. I had a series of questions on transmission but I think most of them were answered. I do want to follow up just on a slightly different angle on a question that you responded to Chairman Nelson before lunch. And you don't need to be very extensive because I think you've already answered a lot of this. You stated repeatedly that access to transmission is a critical factor that's going to allow both the ratepayers and the shareholders to benefit from this merger. My question for you is that there is a proportion of that transmission network that isn't within your control, and there are a lot of economic, political and regulatory uncertainties out there right now, and I'm wondering how you would

00141

1 characterize the degree of risk, market risk, for the
2 company as associated with some of these uncertainties
3 of transmission access -- to transmission that you
4 don't own as a company.

5 A. When we first looked at the merger
6 obviously one of the key issues that we had to address
7 was how do we get transmission between our properties
8 and Sierra properties. The three potential candidates
9 for that were Pacific, Bonneville and Idaho. As I
10 mentioned earlier, we do already have a memorandum of
11 understanding with Idaho that we think is at a
12 reasonable level and rate and a memorandum of
13 understanding with Bonneville for a path between the
14 two companies, and then we also have an agreement, if
15 you will, with Pacific Corp to work with them on other
16 transmission opportunities. Beyond that and the
17 merger, transmission will always be a key issue on the
18 access to the marketplace. There will be risk
19 involved in the transmission process as there's risk
20 in everything that we're talking about here. We're
21 confident that the risk is not onerous, that the need
22 to be in control of our own destiny is so very
23 important that we can lock up long-term contracts with
24 transmission to help us do that and ameliorate that
25 risk. I think that Les Bryan or Jerry Canning would

00142

1 be good ones to talk with regarding transmission and
2 risks and how that transmission interfaces with the
3 wholesale sales. You know, they could really
4 elaborate a lot more than I could. I guess from my
5 perspective I feel comfortable that we can manage
6 those risks but the more access we have to
7 transmission in the future, the more competitive we're
8 going to be.

9 Q. As I understand it, at the present time
10 both Water Power and Sierra Pacific have maintained
11 IRP processes, separate IRP processes?

12 A. Yes.

13 Q. And under the merged company, will they
14 remain separate IRP processes between the two
15 divisions?

16 A. That's a good question. I assume that it
17 would be under the corporate, but it would be separate
18 for the individual divisions because the divisions
19 will be separate so that the individual regulatory
20 groups will have a separate plan for each division,
21 but there would be somebody else who can answer that
22 better than I could and that might be Les Bryan and/or
23 Jerry Canning again.

24 Q. Save it for them. Another question I had
25 for you and maybe this also will need to be

00143

1 potentially deferred. I believe I recall in reading
2 your testimony that one of the benefits is the
3 capacity savings that you will be able to achieve by a
4 merged company, that you will have less need for
5 capacity for the two companies together than you would
6 each company individually; is that correct?

7 A. Right.

8 Q. And there's a number of ways that those
9 benefits could be realized back to the ratepayers.
10 One would be, I guess, avoiding potential construction
11 of new capacity in the future, of reducing purchases
12 for capacity outside, and you may take some of that
13 capacity out in the wholesale market in various
14 products. I haven't thought of something else but how
15 is that going to feed back into the system?

16 A. I think that depending upon the situation
17 that you've talked about that there will be a sharing
18 of those benefits, of that decreased capacity
19 requirement, and that that sharing would be
20 distributed and allocated between the utilities, and
21 John Buerger could probably address the mechanism by
22 which that would occur. One of the things in the
23 allocation process that is important I think that we
24 recognize is that what we are -- what hopefully is
25 going to happen is we're going to end up with a bigger

00144

1 pie, and we will allocate this larger pie to the
2 different jurisdictions so they will all benefit.
3 That's the idea, and hopefully, as I say, we can
4 arrive at allocation processes by which that can be
5 accomplished.

6 COMMISSIONER GILLIS: Thank you. That's
7 all my questions.

8 JUDGE CANFIELD: Thank you, Commissioner.
9 Mr. Meyer, any questions on redirect?

10 MR. MEYER: Just a couple of loose ends.

11

12 REDIRECT EXAMINATION

13 BY MR. MEYER:

14 Q. There was some discussion, a number of
15 good points raised, about how you go about
16 establishing a transfer price for transactions between
17 the operating divisions, and you provided an extended
18 answer. Now, would Les Bryan also be able to provide
19 some additional insights on how you would actually
20 price those --

21 A. Could indeed. Les Bryan and/or Jerry
22 Canning can do that.

23 Q. Now, really just one question for you on
24 redirect, and this goes to the corporate vision. In
25 your testimony you refer to the mission statement of

00145

1 the company, and you provided an extended response
2 about how you meant to honor that commitment going
3 forward. Do you believe that Mr. Walt Higgins shares
4 that commitment to that vision statement?

5 A. Sure. That vision statement that was
6 presented to the employees of both Sierra and Water
7 Power was a product of Walt Higgins and mine meeting
8 several numbers of days during December and early part
9 of January to put that together as a guideline for the
10 transition teams and for the management of the
11 companies on where we thought and where we believe the
12 Resources West Energy future will be.

13 MR. MEYER: Thank you. That's all I had.

14 JUDGE CANFIELD: Thank you, Mr. Meyer. Any
15 additional questions on recross?

16 MS. JOHNSTON: I just have two, Your Honor.

17

18 RE CROSS-EXAMINATION

19 BY MS. JOHNSTON:

20 Q. Mr. Redmond, you touched on this in
21 response to a question asked of you by Commissioner
22 Hemstad, but I want to revisit it just a minute. As
23 you sit here today, are you prepared to make a
24 commitment to us and assure us that the major but not
25 significant differences set forth in Exhibit 6,

00146

1 particularly the relative differences between Water
2 Power and Sierra in terms of average fuel cost and
3 retail prices, will be preserved now and into the
4 future?

5 A. I'm not sure I understand your question in
6 terms of -- I guess what I would certainly commit to
7 is what we have committed to in this case, and that is
8 that the resources of Water Power will certainly be
9 dedicated to the customers. Now, will the cost of
10 those resources change through time, sure they will,
11 because as we have growth and if we add resource, that
12 will change, just as it will change for Sierra, but
13 those resources of Sierra will be dedicated, so there
14 will continue to be a difference, no question, between
15 the two operating divisions. I would expect, though,
16 that those differences will vary but they will not
17 vary because resources from Washington Water Power
18 have been transferred to Sierra Pacific or vice versa.
19 Does that answer your question? I'm struggling a
20 little bit about those differences remaining the same
21 forever and ever. I don't know that I understood
22 your question right. I can't certainly say that
23 because they're going to vary depending upon what is
24 needed in the individual jurisdictions.

25 Q. I think that answers my question. I was

00147

1 asking about those particular two areas whether or not
2 the relative differences will be rolled in through the
3 years as an average.

4 A. And the answer is no. That kind of gets
5 back to the customer surveys again, what was perceived
6 by the customers, and we were trying to point that out
7 that that's not real correct.

8 Q. You stated in response to a question from
9 public counsel that you have made presentations to
10 customers in regards to the benefits of the merger.
11 Do you recall that?

12 A. Yes.

13 Q. Would you please provide us all documents
14 that were presented to these consumer groups as well
15 as any available minutes or transcripts of such
16 meetings or presentations made to the consumers as the
17 next record requisition in line?

18 A. Sure. You have to understand that what you
19 will probably get is maybe some notes for speeches
20 that were made. These were made before business
21 receptions. There were no notes taken or there were
22 no recorded minutes. They were business community
23 leaders coming to a reception sponsored by Resource
24 West Energy, and Walt and I were there to give a few
25 comments about the merger and where we saw the future

00148

1 was going. In many cases, I have to tell you that we
2 talked from unprepared notes. It was a casual
3 conversation but a presentation, so we will furnish
4 you everything that we have along those lines but I
5 can't promise you that it's going to be very much.

6 JUDGE CANFIELD: Okay. That's record
7 requisition No. 2.

8 (Record Requisition 2.)

9 MS. JOHNSTON: Thank you, that's all I
10 have.

11 JUDGE CANFIELD: Any additional questions
12 on recross?

13 Let the record reflect there are none.
14 Commissioners.

15

16 EXAMINATION

17 BY CHAIRMAN NELSON:

18 Q. Mr. Redmond, could we ask Mr. Bryan to
19 color that map for the transmission assets owned by
20 the combined company? What I would like to see is
21 somehow what's owned by the company and what are
22 potential joint alliances or paths, as you call them,
23 just so I can see where you are relative to where --

24 A. I'm sure we can ask him to do that and
25 clarify that a little more on where the different

00149

1 lines go and what they do, surely.

2 CHAIRMAN NELSON: Thank you.

3 JUDGE CANFIELD: Any additional questions?

4 MR. MEYER: I have one additional question.

5 It derives from something that staff counsel asked.

6

7 REDIRECT EXAMINATION

8 BY MR. MEYER:

9 Q. Are you prepared on behalf of the company
10 to commit that customers in this jurisdiction will be
11 no worse off in the future because of the merger?

12 A. Oh, absolutely.

13 Q. And that's in the nature of a hold harmless
14 protection?

15 A. Yes.

16 JUDGE CANFIELD: Anything further? Thank
17 you, Mr. Redmond, you're excused.

18 MR. MEYER: Next witness, we call Mr. Walt
19 Higgins.

20 JUDGE CANFIELD: While they're changing
21 over I will note that we have marked the prefiled
22 testimony of Mr. Higgins as Exhibit T-7 and the
23 accompanying exhibit as Exhibit 8.

24 Whereupon,

25 WALTER HIGGINS,

00150

1 having been first duly sworn, was called as a witness
2 herein and was examined and testified as follows:

3

4 DIRECT EXAMINATION

5 BY MR. MEYER:

6 Q. For the record, would you please state your
7 name?

8 A. Name is Walter M. Higgins.

9 Q. By whom are you employed? What is your
10 title?

11 A. I'm the chairman of the board,
12 president and chief executive officer of Sierra
13 Resources and chief executive officer of Sierra
14 Pacific Company, Reno, Nevada.

15 Q. Have you prefiled testimony in this
16 proceeding marked as Exhibit T-7?

17 A. I'm not sure I can speak to the number but
18 I did prefile testimony.

19 Q. Very good. Record will reflect that that
20 is T-7, and do you have any corrections to make to
21 that prefiled testimony?

22 A. I do not.

23 Q. If I were to ask you the questions that
24 appear in that testimony, would your answers be the
25 same?

00151

1 A. They would.

2 Q. You are also sponsoring what has been
3 marked as Exhibit No. 8 consisting of a history of
4 Sierra?

5 A. I am sponsoring that exhibit.

6 Q. And was that prepared by you or under your
7 direction and supervision?

8 A. It was not. It was prepared prior to the
9 time that I was employed by the company and was a
10 document that existed at that time.

11 Q. And you're sponsoring that document?

12 A. I am.

13 Q. And you agree with the statements and the
14 information contained in that?

15 A. Yes, I do.

16 MR. MEYER: With that having been said, I
17 move the admission of Exhibits T-7 and 8.

18 JUDGE CANFIELD: Any objections? Let the
19 record reflect there are none. Exhibits T-7 and 8 are
20 so entered into the record.

21 (Admitted Exhibits T-7 and 8.)

22 MR. MEYER: And the witness is tendered for
23 cross.

24

25

CROSS-EXAMINATION

00152

1 BY MS. JOHNSTON:

2 Q. Good afternoon.

3 A. Can you hear me?

4 Q. Certainly. Please turn to Exhibit 4 to Mr.
5 Redmond's testimony. On page 2 of that exhibit
6 there's a bar graph comparing Water Power's cost of
7 production for the years 1988 through 1993 with
8 industry averages. Do you see that?

9 A. I do.

10 Q. There appears to be no such corresponding
11 exhibit as sponsored by Mr. Redmond. Have you
12 prepared the same comparison for Sierra?

13 A. I don't recall the existence of such an
14 exhibit.

15 Q. Can you give us some idea of how such a
16 comparison for Sierra might look?

17 A. More like industry average. I couldn't
18 tell you exactly whether it's above or below but much
19 more like industry average.

20 Q. As record requisition 3 could you provide a
21 bar chart in the same format as used by Mr. Redmond in
22 his Exhibit 4 comparing Sierra's cost of production
23 figures '88 through '93 to industry averages.

24 A. Certainly.

25 JUDGE CANFIELD: That is record requisition

00153

1 No. 3.

2 (Record Requisition 3.)

3 Q. Are you familiar with the Nevada
4 Commission's order in docket No. 94-8024?

5 A. Not by that number.

6 Q. It's the merger case.

7 A. To some extent. I certainly haven't
8 studied it.

9 Q. Well, item 3A of that order mentions the
10 savings validation report that Sierra is to file with
11 the Commission on or about March 13, 1995.

12 A. I'm familiar with that.

13 Q. I believe we heard testimony about that
14 this morning. Can you describe what is expected to be
15 contained in this report?

16 A. I think in general it is our -- it is my
17 understanding that the Commission was seeking a
18 validation that the savings envisioned in the merger
19 could in fact be realized, if you will, in additional
20 analysis/study and an assertion by Resources West and
21 the parties that it could be accomplished.

22 Q. The order mentions Sierra having
23 opportunity to discuss the results of the report with
24 all affected employees. By quote-unquote affected
25 employees, is Sierra referring to employees whose

00154

1 positions will be eliminated as a result of the
2 merger?

3 A. The validation report?

4 Q. Yes.

5 A. I'm not exactly sure what that might have
6 meant, but we generally have been open and tried to be
7 open and discuss all such matters of how the merger is
8 unfolding and what's going on and what decisions are
9 being made with as many employees as possible so that
10 everyone is well informed of what's happening. So
11 that would include by definition those whose jobs
12 might directly be affected.

13 Q. But you're not familiar with what was meant
14 by the Commission in its statement that or reference
15 to Sierra having had the opportunity to discuss the
16 result of the report with all affected employees?

17 A. Well, taken out of context I'm just not
18 sure I understand exactly what that sentence means.

19 Q. Is it expected that specific positions that
20 will be reduced will be identified at that time?

21 A. I think to some extent but by no means --
22 as Mr. Redmond said this morning, I think 80 percent
23 of the way there, maybe 90 percent.

24 Q. The order refers to discussions which
25 affected Sierra employees. Do you plan any

00155

1 discussions with affected Water Power employees?

2 A. Well, I certainly supported and have been
3 available in whatever way Paul Redmond and the Water
4 Power staff wanted me to participate in communicating
5 with Water Power employees and expect to continue to
6 do that. And I assume and I know from at least the
7 philosophic discussions that we have had among Paul
8 and I and the executive team that it is Water Power's
9 intention to communicate similarly all along the way
10 during the merger.

11 Q. As record requisition No. 4, please provide
12 a copy of the savings validation report, the one
13 that's filed with the Public Service Commission of
14 Nevada.

15 A. Happy to do that.

16 JUDGE CANFIELD: That's No. 4.

17 (Record Requisition 4.)

18 Q. I posed this next question to Mr. Redmond.
19 However, I would like to get your opinion on the
20 matter. With regard to merger-related personnel
21 reductions, have you or anyone associated with Sierra
22 Pacific or anyone at Water Power, to your knowledge,
23 participated in discussions with other regulatory
24 bodies regarding reductions in merged company
25 positions or the location of expected employment loss

00156

1 other than what is presented in the direct testimony
2 and exhibits of the company witnesses?

3 A. Not to my knowledge.

4 Q. So it's not true that Water Power and
5 Sierra have been negotiating with the Nevada
6 Commission regarding net employment losses in the Reno
7 area?

8 A. Not to my knowledge.

9 Q. Please turn to page 6 of your testimony.

10 A. I'm there.

11 Q. Like to direct your attention to lines 35
12 and 36. There you describe how strategic and
13 operational challenge led Sierra Pacific to consider a
14 merger with a company of comparable corporate culture.
15 Do you see that?

16 A. Yes.

17 Q. Can you describe for us in what manner the
18 corporate culture of Water Power and Sierra Pacific
19 are comparable?

20 A. I think on quite a number of fronts some of
21 which Mr. Redmond described quite well this morning,
22 but I would add and perhaps elaborate, both companies
23 serve fairly large areas that are sort of the second
24 position in a state that has a much larger city in a
25 larger urban area. Both companies have very large

00157

1 rural areas that they serve. Both companies have a
2 university in their service territory that has, let's
3 say, a considerable effect on -- or a couple of
4 universities in Water Power's case -- that a lot of
5 the people come from those schools. Both companies
6 have a history of good customer service and deep
7 commitment to the community. Both companies have been
8 trying hard to keep costs down, avoid dissatisfying
9 cost changes. Both companies -- in Sierra Pacific's
10 case, a reasonably small state, Washington Water
11 Power, a larger state but certainly a much less
12 populated part of a larger state. One can go on and
13 on, but the idea is that it felt, as I have known
14 Water Power for some 14 years before I came back to
15 Sierra, and then when I came back, that there were
16 many similarities in the way the company saw the
17 world.

18 Q. Are there areas of differences between the
19 two companies that in your opinion will need to be
20 addressed as a merged company?

21 A. Yes, there are. I'm not sure I could
22 exactly elaborate them. From time to time as we work
23 together we find that -- just one example that comes
24 to mind. Water Power made a decision a couple of
25 years ago to outsource its data processing service.

00158

1 That's a decision that may or may not have been
2 considered at Sierra. It hasn't been, to my
3 knowledge, during my time, but there's a difference
4 that's got to be resolved about how to do something
5 like that.

6 Water Power has outside legal counsel. We
7 have a small inside staff and use outside staff. So
8 there's a difference there that's got to be resolved.
9 But on fundamental issues, dedication to satisfying
10 the customers, working hard to be good citizens in the
11 community, I have not seen any big differences. I've
12 seen differences on smaller things.

13 Q. Please turn to page 12 of your testimony.

14 A. I'm there.

15 Q. At lines 28 and 9 you describe the sharing
16 of benefits among "stake holders." By stake holders
17 can I presume that you mean ratepayers and
18 shareholders?

19 A. A stake holder is a more generic word as
20 used in this context to describe someone who has a
21 legitimate and abiding interest in what goes on in the
22 company. That would include customers, shareholders,
23 regulators, community leaders, literally everybody
24 that's concerned about and has an interest in what the
25 company does.

00159

1 Q. Please turn to page 16 of your testimony.
2 At lines 12 and 13 you state that Sierra Pacific's
3 completion of the Alturas transmission line "will
4 create a second major tie to systems to its west." Do
5 you see that?

6 A. Yes, I do.

7 Q. What is the first major tie to Sierra's
8 west?

9 A. We have a tie with Pacific Gas and Electric
10 that crosses the Sierra almost due east/west out of
11 Reno and for many years that was the sole source of
12 power to the Reno area, and so I guess I would
13 consider that the major tie to the west.

14 Q. Are you familiar with Mr. Canning's
15 testimony in this case?

16 A. I've read it, and I certainly believe I
17 understand what he said.

18 Q. In Mr. Canning's testimony at page 5, lines
19 20 through 27?

20 A. Sally, I don't have that in front of me so
21 I will have to just listen.

22 Q. That's fine. I will just ask you the
23 question subject to your check. In Mr. Canning's
24 testimony Sierra's transmission interconnections are
25 described in more detail including the PG and E tie.

00160

1 Mr. Canning indicates that this tie consisting of two
2 115 KV lines and one 60 KV line has a rating of 100
3 megawatts for east to west transfers and 50 megawatts
4 for west to east transfers. Do you recall that
5 testimony?

6 A. Yes.

7 Q. Given those transfer capacities, would you
8 still consider Sierra Pacific's tie to PG and E to be
9 a major tie?

10 A. Well, certainly not of a size compared to
11 the Pacific intertie and somewhat smaller than the
12 Alturas intertie is intended to be, but as I said it
13 was once the sole source of power to Reno and so for
14 Reno it was a major tie.

15 Q. Does Sierra Pacific currently have excess
16 energy to sell on wholesale sale markets?

17 A. At certain times energy is available
18 depending on current loads in your own system and what
19 the markets are doing and there are times when we can
20 and sometimes do sell excess energy into those
21 markets, and as Mr. Redmond alluded this morning my
22 instructions to Mr. Canning, and you can certainly ask
23 him many questions about this, are that we should be
24 doing everything we can to increase those wholesale
25 sales and make as good a use of our system as we

00161

1 possibly can.

2 Q. Has the company successfully marketed its
3 excess energy in California or the southwest through
4 the connection with PGE or other transmission
5 interconnections?

6 A. A little bit. As you point out, it's not
7 an unlimited connection but we do sometimes make sales
8 over those lines and we also sell to the east and
9 sometimes those eastern sales loop around and go to
10 the south or southwest.

11 Q. Are those circumstances relatively rare or
12 limited?

13 A. I'm not sure I'm really competent to answer
14 that. I would urge you to ask Mr. Canning those
15 questions.

16 Q. Now, this next issue was addressed in Mr.
17 Redmond's testimony. However, in your opinion will
18 the merger offer both the Water Power and the Sierra
19 Pacific divisions transmission access opportunities
20 which are not currently available to each company on a
21 stand-alone basis?

22 A. Yes.

23 Q. Are you aware of any analysis to support
24 this claim?

25 A. I couldn't point to any one document, but a

00162

1 tremendous amount of analysis was done as we attempted
2 to determine how one might merge the companies, and
3 that analysis, I believe, is highlighted in Mr.
4 Canning's testimony.

5 Q. So if we want to explore the amount of
6 analysis that was performed, we should ask Mr.
7 Canning?

8 A. I would urge you to do that.

9 Q. Are you aware of the FERC's new
10 transmission comparability standard?

11 A. Generally, yes.

12 Q. Well, you filed testimony in the FERC
13 filing on open access tariff for Resources West,
14 didn't you?

15 A. Yes.

16 Q. And those tariffs include provisions for
17 offering comparable service?

18 A. Yes, they do.

19 Q. Could you summarize for us your
20 understanding of that comparability standard?

21 A. One must say at the start that FERC's
22 definition of comparability is changing quite rapidly.
23 It might be different tomorrow than it was yesterday.
24 Comparability means that a company who is a
25 transmission owner would offer the services to other

00163

1 exempt wholesale generators or utilities on a basis
2 comparable to that which it offers to itself, to its,
3 if you will, retail customers. Same charge, same
4 conditions.

5 Q. Would you agree that the implementation of
6 comparability in the west is a significant means of
7 insuring access to the transmission grid?

8 A. I would say that FERC policies have been
9 designed and certainly would seem to be carrying out a
10 role of opening or, if you will, making transmission
11 more open access than it ever has been.

12 Q. So the answer to my question is yes?

13 A. Yeah.

14 Q. Are you aware of the fact that most major
15 transmission-owning utilities in the west are planning
16 on filing open access transmission tariffs?

17 A. I was not aware of that. I am not
18 surprised. You probably would have to file one if you
19 want anything done in your transmission system because
20 that's the way FERC operates these days.

21 Q. And the open access tariff is also a
22 necessary condition for membership in the regional
23 transmission groups; isn't that true?

24 A. I'm not familiar with each one of the
25 various regional transmission groups that is popping

00164

1 into existence in the west but FERC has said that
2 comparability, open access, are almost certainly -- in
3 fact I don't think there's been any equivalent case --
4 they are certainly a necessary requirement for them to
5 approve a regional transmission group.

6 Q. Will Resources West Energy participate in
7 a regional transmission group?

8 A. I think that's yet to be decided. That's
9 an important strategic decision that's not been made.

10 Q. What are you going to base your decision
11 on?

12 A. Whether it's to the advantage of our
13 customers to be a member of a regional transmission
14 group.

15 Q. What factors will be considered in making
16 the decision whether or not it will be a benefit for
17 your customers to participate?

18 A. One that pops into my head is if the net of
19 joining a regional transmission group is if our
20 customers end up having higher rates because we are
21 not able to make a good use of our transmission
22 system, I wouldn't consider that a good thing for our
23 customers. Many many other factors that come into
24 play and it's a subject that I feel bears a great deal
25 more analysis and I'm sure Mr. Canning and Mr. Bryan

00165

1 could both make comments on it but it is one that
2 we'll have to make as a strategic decision.

3 Q. A decision that will be made by you?

4 A. I will certainly participate in it. I
5 think Mr. Redmond will be a deep participant in it,
6 Mr. Canning and Mr. Bryan. It is an important enough
7 decision that as chief executive officer of the entire
8 entity Mr. Redmond would ultimately have to approve.

9 MS. JOHNSTON: Your Honor, like to have
10 this marked for identification, please.

11 JUDGE CANFIELD: For the record, Ms.
12 Johnston just passed around a single-page document
13 which will be marked as Exhibit 51 for identification.

14 (Marked Exhibit 51.)

15 Q. Mr. Higgins, are you familiar with what's
16 been marked as Exhibit 51 for identification?

17 A. I've seen it before. I think I understand
18 it.

19 Q. Well, you're listed as the sponsoring
20 witness?

21 A. Yes.

22 MS. JOHNSTON: Your Honor, I move the
23 admission of Exhibit 51.

24 JUDGE CANFIELD: Any objections?

25 MR. MEYER: None.

00166

1 JUDGE CANFIELD: Let the record so reflect.
2 Exhibit 51 is so entered into the record.

3 (Admitted Exhibit 51.)

4 Q. Mr. Higgins, in your response to public
5 counsel data request 330, which is now Exhibit 51, you
6 describe services, including transmission services,
7 which the merged company would be able to provide.
8 You indicate in your testimony at page 16, lines 23
9 through 24 that the merged company, "will provide a
10 competitive alternative to many customers for a
11 variety of services." Do you recall that testimony?

12 A. Yes, I do.

13 Q. Is it your testimony that the merger offers
14 both Sierra Pacific and Water Power additional
15 opportunities to compete to provide those services in
16 addition to the opportunities the companies currently
17 have?

18 A. Yes, it is.

19 Q. In what way?

20 A. One that comes to mind immediately, Mr.
21 Redmond alluded to the fact that they have a
22 presidential permit to build a transmission line to
23 Canada. It's quite possible that the combined entity
24 might be able to, by using Sierra's transmission,
25 Water Power's transmission access to Canada, perhaps

00167

1 make a power sale that would not have been possible
2 for only one of those entities to make alone. That's
3 one example where the combined system would be able to
4 do something that the systems alone would unlikely
5 be able to do.

6 Q. Do any other examples come to mind?

7 A. Yes. Suppose, for example, today Water
8 Power might be in a position to have some excess
9 energy at certain times out of the hydro system but
10 it's not clear it's always there because hydro is
11 somewhat unpredictable. It might be possible at
12 certain times of the year for a Sierra combustion
13 turbine to firm a sale to the south of Water Power
14 hydro on a wholesale interruptible basis but firm it
15 up with Sierra turbine or a Sierra gas-fired plant,
16 and so you make a sell maybe to Arizona that it would
17 have been harder or not possible for Water Power to
18 make for reliability or something like that, so you
19 get benefits by using the combined resources of the
20 two systems.

21 Q. Did you conduct any analysis?

22 A. Not personally.

23 Q. Well, are there any studies or analyses or
24 documents or anything else tending to support your
25 conclusion that additional opportunities will be

00168

1 available to these companies?

2 A. I would say, in my own case, no analysis
3 but a good bit of judgment based on having been in
4 this business for a long time and conversations and
5 judgment with Mr. Bryan, Mr. Redmond, Mr. Canning, Mr.
6 Parker of our staff.

7 Q. In your response to public counsel data
8 request 330 you address retail wheeling. Do you
9 anticipate that retail wheeling will be implemented in
10 California?

11 A. Something is going to happen in California.
12 I'm not sure anybody really knows what. It's
13 possible.

14 Q. Have you finished?

15 A. It's possible that retail wheeling would
16 happen.

17 Q. And did you base your opinion in part or in
18 whole on the assumption that retail wheeling would or
19 would not be implemented in California?

20 A. No. I think the more correct answer to
21 your question would be that some changes are going to
22 happen in our industry whether we like it or not that
23 would create retail wheeling as either a partial or a
24 full way that the system operates, whether it's two
25 years, five years or 10 years from now, and that in

00169

1 such an environment a company that is more capable of
2 producing energy at lower prices will be more
3 competitive.

4 Q. If retail wheeling is ultimately
5 implemented in California, will Sierra compete -- I
6 should say the Sierra division of Resources West --
7 compete to serve those retail loads?

8 A. I think the first thing to say is we would
9 be subject to retail wheeling ourselves because we do
10 serve 40,000 electric customers in the state of
11 California. We would be most interested in continuing
12 to serve those customers and winning their business.
13 Beyond that it would be a matter of whether or not we
14 had resources that could compete in that market that
15 properly used might result in everyone's cost being
16 lower and so a decision to go after a retail wheeling
17 customer -- and one can imagine that California would
18 say, gee, a utility that comes in and competes in
19 California ought to be willing to have it happen in
20 their own jurisdiction. So we would have to evaluate
21 just exactly how is this particular market operating,
22 and then if we have resources that are available, and
23 particularly given that some of our load would be at
24 risk in California under the same scenario, we would
25 have to compete so that our prices would stay down and

00170

1 our customers would continue to choose us.

2 Q. Do you anticipate that retail wheeling will
3 occur in other states in which Resources West would
4 conduct regulated electrical operations?

5 A. I think in the long term there's certainly
6 strong forces at work that will push towards retail
7 wheeling.

8 Q. Would you give the same answer to my
9 question regarding whether or not Sierra would compete
10 to serve those retail loads in those other
11 jurisdictions?

12 A. I think I would probably answer the same
13 way, that it depends on how that market works and what
14 we have available that might help us keep our overall
15 costs lower.

16 Q. Do you have the joint proxy statement
17 available to you?

18 A. It can be produced. I don't have it with
19 me at the stand.

20 Q. I have a copy here if you need one.

21 A. The one that's been handed to me is the
22 proxy statement which is essentially identical to the
23 one mailed by Sierra Pacific but this is a copy of the
24 one mailed by Water Power and so there are slight
25 differences in the early -- you know, the letters to

00171

1 shareholders and so forth. Otherwise I believe
2 they're identical.

3 Q. Please turn to page 27 of the joint proxy
4 statement.

5 A. I'm there.

6 Q. Approximately three quarters of the way
7 down the page the section Background of the Merger
8 begins. Do you see that heading?

9 A. Yes.

10 Q. And the first item under this category
11 states, "At a meeting of the Sierra Pacific Resources
12 board of directors on January 5, 1994 Mr. Walter M.
13 Higgins, chief executive officer of SPR, discussed
14 in general terms the increasingly competitive utility
15 industry and what, in his view, Sierra Pacific
16 Resources should do to compete effectively in this new
17 environment. Mr. Higgins concluded that in his
18 opinion Sierra Pacific's future competitive position
19 would be greatly enhanced by the strategic alliance
20 with Washington Water Power. The Sierra Pacific
21 Resources board of directors authorized Mr. Higgins to
22 explore a potential strategic alliance with Washington
23 Water Power." Is that an accurate reading?

24 A. Yes, it is.

25 Q. Now, in data requests No. 41, a portion of

00172

1 which has now been entered into the record through Mr.
2 Redmond -- I believe it was Exhibit 50 -- you were
3 asked to provide copies of any and all meetings
4 minutes, presentation materials, notes, conversation,
5 memoranda, meeting notes, summaries or other document
6 pertaining to this particular meeting. Do you have a
7 copy of that exhibit before you now?

8 A. I do.

9 Q. On the third page of that exhibit the
10 company's response to this request was that nothing
11 was available for this meeting. Do you recall that?

12 A. I do, although I believe you've previously
13 been provided the board minutes from that meeting. It
14 was a board meeting.

15 Q. So there are minutes?

16 A. There's board minutes. I mean, I think
17 those were given early on but I may be mistaken about
18 that. There's minutes of every board meeting,
19 official minutes of every board meeting.

20 Q. I'm happy to hear that because that was
21 going to be my next question. On page 13 of your by-
22 laws it states that "the secretary shall keep accurate
23 minutes of all meetings of the board of directors."
24 So now are we to understand that although the response
25 to staff data request 41 indicates that there were no

00173

1 board meeting minutes of that particular board
2 meeting, they do in fact exist?

3 A. As far as I know they do and I have to
4 believe I would have a copy back in my office. Until
5 this morning I wasn't familiar with this document, but
6 I can only assume that the responder assumed that you
7 already had copies of the board minutes.

8 MS. JOHNSTON: Well, may I approach the
9 witness, Your Honor?

10 JUDGE CANFIELD: Go ahead.

11 MR. MEYER: While she's doing that we'll
12 check to see whether or not those minutes weren't part
13 of another data response. We're checking on that.

14 MS. JOHNSTON: I can represent for the
15 record that they were not provided.

16 Q. Like to direct your attention to the third
17 page of Exhibit 50. That is that response and you
18 indicated, is it answer to subpart A?

19 A. Uh-huh.

20 Q. Do you agree that that's what that
21 indicates, that board minutes were not available for
22 that particular meeting?

23 A. Are you asking me a different question? I
24 thought I answered that. I'm missing something.

25 Q. I'm clarifying for the record that in fact

00174

1 the company, Sierra Pacific, indicated to staff in
2 response to its data request that no board meeting
3 minutes existed for that particular board meeting. Is
4 that a fair statement?

5 A. No, I don't think it is. I think it's fair
6 to say that this document said that there were no
7 minutes available but in fact there are minutes
8 available.

9 MS. JOHNSTON: Your Honor, as the next
10 record requisition in line we would like to have
11 minutes of the board meeting of January 5, 1994 if in
12 fact they exist.

13 JUDGE CANFIELD: Okay. And Mr. Higgins
14 indicates he has a copy of those back at his office.
15 And that will be record requisition No. 5.

16 (Record Requisition 5.)

17 MR. MEYER: In the meantime we'll continue
18 to look and if we don't have it we'll be happy to
19 produce it.

20 JUDGE CANFIELD: Fair enough.

21 Q. Like Mr. Redmond, is it true that you kept
22 no personal notes of conversations from the numerous
23 meetings which were held to discuss the merger?

24 A. I did not. I guess similar to him I'm not
25 one that takes an awful lot of detail notes, if any

00175

1 notes at all, after a meeting such as that, and as
2 best I know I don't have any notes from any meetings.

3 Q. And why is that?

4 A. Well, usually when I'm in a meeting someone
5 else is taking notes such as the secretary for a board
6 meeting and so it's just not a habit that I have.

7 Q. And the secretary wasn't present at the
8 board meetings that you had with Mr. Redmond?

9 A. No, only Mr. Redmond and I.

10 Q. That's all I have, Mr. Higgins.

11 JUDGE CANFIELD: Next up would have been
12 Mr. Pope, but he did indicate that he would not be
13 here for this afternoon's session and Ms. Williams
14 indicates she may have a few questions for Mr.
15 Higgins.

16 MS. WILLIAMS: Yes, that's true.

17 JUDGE CANFIELD: Go ahead.

18

19 CROSS-EXAMINATION

20 BY MS. WILLIAMS:

21 Q. Mr. Higgins, I'm Linda Williams. Good
22 afternoon. Representing Northwest Conservation Act
23 Coalition and SNAP, Spokane Neighborhood Action
24 Program, which is particularly concerned about low
25 income consumers and economic development activity in

00176

1 the Spokane area. I have only a few questions that
2 deal with your answer, your next to the last answer of
3 your testimony on page 17 of your prefiled testimony
4 or filed testimony. In response to a question on line
5 4, you answered the merger is in the public interest
6 and I assume the rest of that paragraph supports the
7 lead sentence; is that correct?

8 A. Yes.

9 Q. Are these three and perhaps four items,
10 because you did have an additional -- your last
11 sentence begins "additionally" so there may in fact be
12 a fourth item. Is this a total list of why you
13 believe that this merger is in the public interest?

14 A. Probably not although I don't know that I
15 would be prepared to list 10 more reasons. There are
16 many things that we expect to be able to learn by
17 having two companies, each of which has worked hard to
18 do a good job, share their opportunity to do that
19 together and get better at things that it intends to
20 do in the future, and that comes to mind quickly.
21 Mr. Redmond alluded this morning, and I would add
22 that one interesting aspect of this merger -- and it
23 was discussed in some of the filings we've made -- has
24 to do with economic diversity and geographic
25 diversity, weather diversity, resource diversity, so

00177

1 there's a flexibility and risk issue that you create
2 the opportunity to withstand economic downturn in one
3 region without having the company affected so much and
4 therefore have to be asking for a rate increase. So
5 there are certain of those kinds of benefits that are
6 much more intangible. It gives the company added
7 financial strength which isn't exactly -- and
8 specifically listed here would be another advantage
9 that's created by having a stronger entity that has a
10 stronger base. I suppose if I were to go on for a
11 while and be expansive I could probably come up with
12 some more but I think there are other perhaps less
13 tangible benefits that would be created.

14 Q. Would you consider the effect on the local
15 economy to be an element, a factor, to consider in
16 consideration of the public interest?

17 A. Yes, I do, absolutely.

18 Q. Would your answer be the same if I expanded
19 that to be the statewide economy?

20 A. I guess, yes, although I'm not sure are the
21 economy really operates with political boundaries in
22 mind. The Coeur D'Alene/Spokane area probably doesn't
23 recognize the Washington boundary in a very explicit
24 economic way. Similarly, Reno/Lake Tahoe is an
25 economic region and so the answer is kind of yes but.

00178

1 Q. Would equity to the work force be an
2 element of the public interest?

3 A. One of the things that you saw in the
4 document Mr. Redmond was asked to talk about this
5 morning, the vision of the future for Resources West,
6 one of the tenets that we believe very strongly in is
7 the tenet of fairness, and we tried very hard in our
8 separation operations, in the early retirement
9 options, in how the work force has been treated and
10 what it's being offered to try to be fair to employees
11 of our work force so that those that might find an
12 opportunity that works for them get the chance to
13 exercise that opportunity and thereby maybe save
14 somebody's job who doesn't want that opportunity. So,
15 yeah, I would say -- whether that's equity or not,
16 that's certainly a driving principle for us as much as
17 possible.

18 Q. And of the three items that you have
19 numbered, are those necessary findings for the
20 Commission to determine that the merger is in the
21 public interest?

22 A. I don't know the law on that subject. I
23 think that they would be very interesting and
24 important principles upon which the Commission might
25 base its decision but there are probably others that

00179

1 they do as well.

2 Q. And if the -- for just illustrative
3 purposes, is any one in and of itself sufficient?
4 For example, would cost savings in and of themselves
5 be a sufficient public interest in your opinion even
6 if the Commission were to find that competition was
7 not enhanced or perhaps even if the merger was anti-
8 competitive in some respect?

9 A. That's a hard one because, you know,
10 there's a whole range of possible outcomes there. I
11 don't know that I can answer it with a yes or no
12 answer. If we started saying, well, if this were here
13 and that were there how would that feel, you know,
14 maybe. It's very hard to say this is the driver and
15 this isn't. What we're trying to do is create a
16 company that's going to do a better job of satisfying
17 its customers and hanging on to them in the years to
18 come than either company could have done on its own.

19 Q. Does this Commission have to agree with you
20 that competition will be increased in order to approve
21 the merger and find it in the public interest?

22 A. I don't know whether they do or not.

23 Q. Were you present when Mr. Redmond made the
24 statement that Water Power customers would be no worse
25 off as a result of the merger?

00180

1 A. Yes, I was.

2 Q. Would you be prepared to make the same
3 statement that Water Power customers would be no worse
4 off as a result of the merger?

5 A. Yes, I would.

6 Q. Would you be prepared to say that there
7 would be a net benefit, without deciding who is a
8 winner and loser, as a result of the merger?

9 A. I have no doubt that every customer of
10 every jurisdiction served by any -- either of these
11 companies today will be better off for this merger
12 having happened.

13 Q. Then you are prepared to say that there is
14 a net benefit, you're prepared to go beyond Mr.
15 Redmond; is that correct?

16 A. I'm not sure that that's a different
17 statement. I think it's essentially the same
18 statement, that I think everybody will be better.
19 Now, how do you measure that, I don't know. If you're
20 saying there's this many dollars, I can't answer that.
21 I can say nobody will be worse off and I believe
22 everybody will be better off.

23 MS. WILLIAMS: I have nothing further.

24 Thank you.

25 JUDGE CANFIELD: Mr. Trotter.

00181

1 MR. TROTTER: Thank you.

2

3 CROSS-EXAMINATION

4 BY MR. TROTTER:

5 Q. Mr. Higgins, my concern is beyond whether
6 every customer is better off but an aspect of that I
7 guess is that all jurisdictions get a fair and
8 equitable sharing of the benefits. Is that consistent
9 with your policy or your commitment?

10 A. That's certainly a principle we've been
11 trying to follow, that equity is an important aspect
12 of this, and it's in a number of the public statement
13 that both Mr. Redmond and I have made and it shows up
14 in a number of the documents that have been filed.

15 Q. And so if one jurisdiction conditioned your
16 merger on a certain sharing of benefits that was
17 inequitable to another jurisdiction, you would oppose
18 that condition, correct?

19 A. I would work very hard to have the
20 jurisdictions work together with us to try to find a
21 way for that not to be something that defeats an
22 otherwise good idea

23 Q. So it's possible for -- it's theoretically
24 possible, put it that way, for all customers to be
25 better off but some jurisdictions getting an unfairly

00182

1 generous allocation of benefits. Is that
2 theoretically possible?

3 A. The word unfair is always a hard word
4 because it's hard to know what each person or each
5 jurisdiction values, and some jurisdictions may value
6 things that others don't and vice versa, but one could
7 always create a model where all the benefits flowed in
8 some direction and Mr. Redmond said, and I would
9 agree, and I will state emphatically, I don't think
10 that will be an outcome that would be very
11 satisfactory to everybody.

12 Q. But it's possible under a scenario where
13 many more benefits go to another jurisdiction it's
14 still possible for all customers to be better off?

15 A. That's certainly true.

16 Q. But that's not your goal, is it?

17 A. Our goal is to find a way to equitably
18 share the benefits of this merger among our customers.

19 Q. I asked a question of Mr. Redmond also that
20 if it turned out that after this Commission approved,
21 if they do approve this merger, another Commission
22 imposed conditions that might be more favorable to
23 that jurisdiction than what Washington imposed, that
24 this docket be reopened for consideration whether
25 those conditions ought to be imposed here as well.

00183

1 What's your position on that?

2 A. I would be very surprised -- I don't know
3 if reopened is the right word but I would be very
4 surprised if such a condition didn't get worked out
5 among the various jurisdictions, and I would certainly
6 hope that that would be the case. And we would
7 certainly cooperate in every way we could to make that
8 possible.

9 Q. Now, your company initiated a total quality
10 management program for its Valmy plant; is that
11 correct?

12 A. Putting it in the past tense would seem to
13 make it sound like it's been going on for a long time
14 but it is one of Mr. Canning's -- and that is his area
15 of responsibility -- very recent initiatives, and so
16 we're still very much in the beginning stages of that.

17 Q. And it was just a narrow initiative focused
18 on that one plant; is that right?

19 A. Yes, at this point, although I would say --
20 I would add that I am a believer from a good bit of
21 personal experience in the idea of continuous
22 improvement and employee involvement, and I believe
23 that's a superior way for a company to operate. It
24 has been my intention since I came to Sierra to
25 attempt to build that kind of a company. If you have

00184

1 read carefully, and you may have not had a chance, the
2 document the Resources West Vision of the Future you
3 will see some of the same kinds of principles
4 contained there and Mr. Redmond and I are in agreement
5 that those kinds of things make sense.

6 Q. And one of the goals, one of the many
7 goals, I suppose, of the total quality management
8 philosophy is for efficient delivery of service?

9 A. Well, total quality -- gee, I'm not by any
10 means an expert -- is focusing on satisfying
11 customers, getting employees deeply involved and
12 everyone all the time working to continuously get
13 better. Kind of boils down to that, so if part of
14 customer satisfaction is, and I believe it is, finding
15 ways to be more efficient and reduce your costs, then
16 absolutely.

17 Q. And in determining the level of benefits as
18 a result of this merger -- let me withdraw. My
19 question is: And certainly a total quality management
20 initiative or policy is not dependent on companies
21 merging?

22 A. No, it's not.

23 Q. And so when the analysis was done to
24 determine the amount of merger benefits that were
25 going to be allocated to Nevada operations, was it

00185

1 assumed that a full, total, quality management program
2 would be in place and all the benefits flowing?

3 A. It was not.

4 Q. Should it have?

5 A. No, because total quality takes years to
6 put in place. You couldn't possibly put any kind of
7 effective total quality program in place in the time
8 we're talking about. Great companies 10 years later
9 still believe that they're working to put total
10 quality in place effectively.

11 Q. But I thought the purpose of the merger
12 benefits was to determine those benefits that are due
13 to the merger and if a complete and total quality
14 management program would generate benefits over the
15 same 10-year time frame, shouldn't those benefits be
16 netted from the merger benefits?

17 A. I'm not sure I understand your question.
18 Let me try and see if I do. My sense is that total
19 quality is a way that a company could choose to
20 operate. Much as Water Power committed two years ago
21 and now is actively engaged in a redesign process,
22 Sierra Pacific, under my leadership, would be involved
23 in attempting to build a continuous improvement
24 employee involvement way of doing business and we
25 would have done that merged or not. And it will be

00186

1 one of the ways that we'll be trying to get better
2 whether we merge or not.

3 Q. So any benefit resulting from a total
4 quality management approach should not be allocated as
5 a merger benefit?

6 A. I guess on the surface of it I would say
7 no.

8 Q. Now, in response to a prior question today,
9 you indicated that an issue affecting one operating
10 division of the merged company would not necessarily
11 result in rate filing because if the other division
12 was doing fine on the corporate basis you might stay
13 out of the hearing room. Is that the gist of your
14 testimony?

15 A. Yeah. I think, again, you have to create
16 an exact scenario but on balance, yeah. Water Power,
17 Mr. Redmond has already discussed the fact that they
18 took a real serious hit to earnings this year because
19 of warm weather and higher power cost. Such a hit
20 would be a smaller problem in a larger company and it
21 might not cause the need for a rate case where maybe
22 otherwise it could have and maybe Water Power would be
23 thinking about a rate case if it were not for this
24 merger coming forward.

25 Q. Now, if a rate case is filed, we'll be

00187

1 looking at, in Washington -- we won't be looking at
2 the operating costs of the Sierra division, will we?
3 We'll be looking at the costs of the Water Power
4 division and then any allocated common overheads that
5 are attributable to Washington.

6 A. I believe what you say is correct and would
7 refer you to Mr. Buergel for the questions of
8 allocation but I think you're essentially correct.

9 Q. So although the company may voluntarily or
10 for whatever reason decline to file a rate case, if a
11 rate case is filed we won't have the beneficial
12 results in the other division before us to offset or
13 somehow mitigate the rate increase in the Washington
14 jurisdiction, assuming it's the Sierra division that's
15 doing well?

16 A. I guess I would agree per se with what you
17 say, although the political realities are that that
18 isn't exactly always the way it works.

19 Q. And the political reality would be that you
20 take a hard look at whether you can justify a rate
21 increase and whether it's in your interest to raise
22 your rates?

23 A. How do my customers feel about it, what
24 effect would it have on economic development in our
25 region, et cetera.

00188

1 MR. TROTTER: I have nothing further.

2 Thank you.

3 JUDGE CANFIELD: Thank you. Commissioners,
4 questions for Mr. Higgins.

5

6 EXAMINATION

7 BY CHAIRMAN NELSON:

8 Q. Good afternoon. Somewhere in your
9 testimony you bragged a little about your geothermal
10 portion of your portfolio, and I wondered how much
11 credit for being number one in geothermal you would
12 give to the policies or regulatory incentives of
13 either the California or Nevada PUCs.

14 A. In particular the Nevada PUC made it
15 patently clear during the, let say, the mid '80s and
16 early '90s that it was the public policy of the state
17 of Nevada that our utility in particular ought to buy
18 a goodly amount of geothermal, and we did. It is not
19 cheap power, and some portion of the reason our costs
20 are higher is we have a good bit of high priced
21 geothermal mixed into that resource mix. On the other
22 hand, it is public policies, it makes a lot of sense,
23 one could argue, especially if the alternatives might
24 have been, as they were once thought to be, much
25 higher cost than geothermal has turned out to be, and

00189

1 so, yeah, I guess in a straightforward way, we didn't
2 necessarily go to the alter willingly but we went and
3 now we buy a lot of geothermal.

4 Q. Looking at the maps, which I have to do
5 because they're right there in front of me, it's made
6 me think about a question asked earlier of Mr. Redmond
7 by Commissioner Gillis on how the combined companies
8 might do integrated resource planning, and a follow-on
9 to that occurred to me in that question, I thought I
10 would ask you since you will be the chief operating
11 officer for the first five, six years of the combined
12 company's existence, and that is, I really perceive a
13 difference in the California/Nevada PUC's culture
14 compared to the cultures of the regulatory regimes in
15 the northwest that Water Power might be used to, and
16 what I perceive, and please disagree with me if you
17 do, is that California and Nevada have been more
18 directive and prescriptive. Nevada was the first in
19 the nation to set a monetized externality value?

20 A. Or to have a resource planning as a matter
21 of law.

22 Q. In the northwest we've been, at least in
23 Washington, we've been a little less prescriptive and
24 tried to let each corporate culture, the three IOUs
25 we oversee, dictate their approach to IRP, and I

00190

1 guess my question is, one, will you try to do planning
2 the same way in each jurisdiction or planning pretty
3 similarly in each jurisdiction or will you try to
4 account for the quote-unquote regulatory cultures and
5 traditions of the jurisdictions?

6 A. A very good question I think and one that I
7 have pondered at times. Number one, the requirement
8 to do resource planning or whatever one might call it
9 in one's jurisdiction, are unique to a jurisdiction,
10 and whatever is required by that jurisdiction has to
11 be accomplished and accomplished well by the company
12 no matter how it does it. The desirability of doing
13 resource planning is something that I firmly believe
14 in, the idea that you should go forward in making
15 decisions about expensive long-term commitments to
16 resources in a very thoughtful, straightforward
17 planful way, if you will. I believe the planning can
18 be done almost universally without regard to which
19 jurisdiction the report of planning and the
20 requirement for planning -- perhaps that might be a
21 little different from jurisdiction to jurisdiction
22 -- can be carried out, and so I think kind of a
23 summary answer would be we will plan in a way that
24 meets, hopefully exceeds, the requirement of each
25 jurisdiction, but planning will be a way of life for

00191

1 us assuming that the world continues to operate pretty
2 much the way it does today, and we will make planful
3 decisions about resources. I don't see a conflict in
4 the planning side of it. I see that there may be
5 different regulatory requirements to be done in each
6 one.

7 Q. Well, does that trouble you a little bit?
8 We're embarking on this new notice of inquiry process
9 for the electricity industry here this year in
10 Washington, just trying to deal with the new realities
11 of a new market structure and competition emerging.
12 One thing I don't want is companies planning just for
13 the sake of the regulator and not having that plan be
14 meaningful to the corporation and what it actually
15 does. So obviously you will have to comply with the
16 laws of the states in which you operate, but I guess
17 I'm trying to figure out what the corporate citizen
18 profile might look like in a combined company given
19 the regulatory cultures, which I do think are
20 different in all these jurisdictions. If you have
21 anything further to say, I'm just talking out loud.

22 A. To the extent that I have an ability to
23 affect this, which makes the assumption that I'm still
24 around to do it, I believe that the debate over
25 whether or not there ought to be thoughtful integrated

00192

1 resource planning by any electric utility is long
2 past, and whether we were required to file reports or
3 not, we would still be planning our future resources
4 in the ways that we have come to know how to do it as
5 a result of, in some cases, some painful requests or
6 directives on the part of commissions or in some cases
7 some more open suggestions about how to do it. But in
8 either case, in all three utilities in which I have
9 worked it has come to be a part of my beliefs that
10 resource planning in the way we do it is a very good
11 idea and is likely to generate much better answers for
12 the company in the long run, and so I don't care
13 whether it's a requirement or not of the Commission, I
14 would go on and do it because I think it gets good
15 answers for us.

16 CHAIRMAN NELSON: Thank you.

17

18 EXAMINATION

19 BY COMMISSIONER HEMSTAD:

20 Q. I was interested in your response to Ms.
21 Johnston's questions about the regional transmission
22 groups. Is either Sierra Pacific or Washington Water
23 Power a member of the Western Transmission Group?

24 A. Member -- I can't speak for Water Power
25 directly. I believe they're considering it. I don't

00193

1 know that they've joined in the sense of official
2 joining. I just can't answer that question. Sierra
3 Pacific has not joined a regional transmission group.
4 We have, however, continued to participate in the
5 deliberations and so forth as these things have moved
6 forward. Because of our central geographic location
7 in the west, we're on everybody's dance card in terms
8 of RTGs. I think there are about seven of them in
9 various forms being thought about and almost everyone
10 would like us to be a part because of where we sit.
11 We don't have enough staff to go to all the meetings
12 that are held and so we have --

13 Q. We don't either.

14 A. We have to be very judicious about this but
15 we certainly stay close to, I think, the western group
16 or West Wide or whatever it's called, the one that
17 Pacific has kind of helped, and Southwest I think is
18 the other one but it's bigger than just our ability to
19 participate.

20 Q. Well, would one of the reasons for not
21 joining be that you would see that you would have some
22 bottleneck effect of the continued relationship to
23 other companies?

24 A. We're growing so fast and our transmission
25 system is evolving so fast that we have to think real

00194

1 seriously about just sort of throwing doors open and
2 watching transmission that we put in place to serve
3 our retail customers sort of vanish because we're not
4 using it that particular day or we don't have a plan
5 for the next year, and it's pretty darn important that
6 our retail customers be protected as this system
7 unfolds until it's much clearer how everything is
8 going to work. The law is very clear on what another
9 company can do if it would like to have access through
10 us and we comply with those very much as they're
11 required to be.

12 Q. Changing the subject, in your now long
13 experience in the utilities industry, I assume you're
14 at least aware generally of the other mergers that
15 have occurred in recent years in the industry. Do you
16 have a sense overall of whether they have been
17 successful?

18 A. As I understand it, the benefits that were
19 alleged in the, if you will, the proposals for each of
20 the mergers which have been proposed and consummated
21 to date have been realized after the merger played
22 out, which I guess would be a definition of success.
23 The company said they were going to do something and
24 they did that and therefore customers were better off
25 because in almost every case some sort of a guarantee

00195

1 of rate freeze or whatever has been offered to
2 customers as a part of a merger. So I think, yes, I
3 would agree.

4 Q. Well, I look at the general scene in
5 corporate America, at least nonutility corporate
6 America, and seems to be littered with cases where
7 acquisition or mergers have taken place and they have
8 not been successful or they haven't reaped the
9 benefits that have been anticipated anyway. Is the
10 utility industry in some way different from the larger
11 corporate scene?

12 A. Yes. I guess it is different. You know,
13 we all have either read books or heard stories about
14 large corporate entities that have merged with other
15 corporate entities, maybe not in the same business --
16 RJR Nabisco comes to mind -- very different entities
17 coming together and heaven knows whether that's really
18 worked. One thing that I think makes this merger not
19 necessarily unique in the utility industry, but maybe
20 unique if you put all corporate mergers together, is
21 that the two companies are very like-minded in their
22 cultures, in their outlook in what they're trying to
23 accomplish, in the kind of people that work together.
24 They're very similar obviously in the business they're
25 in. They're both electric and gas utilities, we have

00196

1 a small water company. And so there are many things
2 that cause -- and the nature of regulation, while it
3 is somewhat different from state to state, is
4 predominantly the same rate-of-return-based
5 regulation. And so there are many things that bring a
6 utility company, I would say, to a different point in
7 a merger process than perhaps this drug company and
8 that drug company coming together or something like
9 that.

10 That said there's still a challenge that
11 both Mr. Redmond and I appreciate that even small
12 differences can become a problem, so a part of our
13 transition effort is to work through those things and
14 make the new company the best it can be of the two
15 things -- of the ways that the current companies do
16 business. So I think utility mergers have a much
17 greater chance of succeeding in that regard, at least
18 in terms of people looking back years later and saying
19 did it work.

20 COMMISSIONER HEMSTAD: That's all I have.

21

22 EXAMINATION

23 BY COMMISSIONER GILLIS:

24 Q. Another planning question. If you do your
25 resource planning as separate entities, how will the

00197

1 system benefits of the merger be reflected in the
2 research planning?

3 A. Mr. Canning, of course, could give a much
4 better answer, Commissioner, than I on this, but let
5 me take a shot. Our current resource plan for Sierra
6 would have suggested, as I think is reflected in the
7 testimony, the need for the addition of a combustion
8 turbine sometime in the '96 or '97 time frame and
9 another one in the '99 time frame and maybe more past
10 that, but let's just use those as examples. So on a
11 stand-alone basis, the resource plan would have called
12 for that addition. One of the benefits of the merger
13 is that perhaps by using excess capacity currently
14 unneeded in the Washington and Idaho jurisdictions
15 from Water Power's resources, whether they're wood
16 waste or coal-fired or hydro or whatever, we may be
17 able to put off the time when these resources would
18 need to be built to serve the southern jurisdictions.

19 So there's a change in the outcome of
20 resource planning that would be based on the merged
21 companies existing, and of course we would want to
22 think as we make the resource plans for the merged
23 companies of how to accomplish that, which should
24 theoretically benefit Water Power ratepayers by having
25 lower rates as a result of getting more benefit out of

00198

1 their excess resource and Sierra ratepayers by not
2 building a newer, theoretically higher cost, resource.

3 Q. So you would be doing system-wide resource
4 planning then?

5 A. I think there's no question, as Mr. Redmond
6 said, that you have to think about it corporately but
7 then you have to file and allocate jurisdictionally.

8 Q. One of the benefits of the merger is that
9 you state that it will prepare you to be in a more
10 competitive position in the marketplace, and I guess
11 that can be taken two ways. One is being more
12 competitive and aggressively pursue new market
13 opportunities or more competitive in defending your
14 own existing market. How do you weigh those?

15 A. In today's world, both play, and they play
16 in different markets. In the retail market many of
17 our large customers, both Water Power's large
18 customers and our large customers, are accosted
19 regularly by others who allege that they can serve
20 cheaper, better, et cetera. I think it's probably a
21 rare week that goes by that the large customers of
22 both companies don't get somebody calling them saying
23 how much cheaper they could do it than their existing
24 utility. We're very sensitive to that and we know
25 that we need, in order to keep those customers, to be

00199

1 very competitive in our offerings to them, and that is
2 one of the things that drives Mr. Redmond and I to
3 know that we absolutely have to do everything we can
4 to find ways to keep our costs as low as possible so
5 our customers will stick with us.

6 In the wholesale markets today, there is as
7 aggressive competition as one would find in any
8 industry anywhere to make sales, because by and large
9 wholesale sales are sales of resource that is in
10 excess to the needs of native load, and those sales
11 are made literally to make up for a cost that would
12 otherwise be incurred if it just sat there and did
13 nothing, and those wholesale markets are just not --
14 bidder isn't quite the right word, but, as Mr. Bryan
15 can testify when you talk to him, absolute aggressive
16 tough marketing in order to win business.

17 Most people who follow this industry think
18 the day is not far off when the large customers will
19 have the choice of from whom they buy power and it is
20 our intention to be the provider of choice in
21 Resources West Energy because we have great customer
22 service and our prices are very competitive, so we're
23 positioning ourselves to continue to compete well in
24 the wholesale markets today and be prepared for the
25 day when customers have unlimited choice even if it

00200

1 turns out to be all the way as far as the California
2 deregulation model might take it. We want to be there
3 if it's retail customers offering service that they
4 find attractive, and this merger is more about that
5 than anything else.

6 Q. In your corporate strategy, how would you
7 weigh those two? Are they equal weight and the first
8 goal to defend your own territory, the second goal to
9 pursue new markets, or reverse?

10 A. Much more the retain and satisfy our
11 current customers and those people who live or move
12 into and do business in our current service
13 territories. That's 99 percent of what we're about.
14 That's my opinion.

15 Q. Would you agree that the energy utility
16 business is a much more risky enterprise these days
17 than it was even a few years ago?

18 A. From my experience it is.

19 Q. I'm interested in your philosophy on risk
20 management. As a COE of a company, one of the things
21 you're doing obviously is the merger. Tell me some
22 other things of -- examples of things you advocate as
23 a company leader in risk management.

24 A. Well, two things I can bring to mind very
25 quickly. We're growing rapidly, and currently from

00201

1 the statistics that are in my testimony you can see
2 that we're about I think 23 percent coal, 26 percent
3 oil and gas, and the balance largely purchased power
4 of which about one third or one fourth is geothermal.
5 As we grow rapidly we have a need for more resources,
6 and we recently completed a very extensive resource
7 planning process, the net output of which was approval
8 by the Nevada Commission of our plan to build a
9 coal-fired gasification, coal gasification power
10 plant, which can run on natural gas or oil or coal
11 turned into a form of gas. Now, that is really a risk
12 management strategy. The cost of that plant is only
13 slightly better than the cost of building a combined
14 cycle combustion turbine plant. If you just look at
15 the raw cost, in fact, one part of that plant is a
16 combined cycle combustion turbine plant. But by
17 virtue of putting a coal gas-fired on the end of it --
18 and I might add that the U.S. Department of Energy is
19 paying after half the cost of this power plant --
20 we'll actually be building some risk management into
21 our system so that irrespective of whether or not coal
22 gets more expensive relative to gas or vice versa, we
23 can burn fuel which is more advantageous to our
24 customer. So it's a way of managing fuel risk.

25 Similarly, we're building an interstate gas

00202

1 pipeline coming from southern Oregon down to Reno,
2 and that will give us the opportunity to import large
3 quantities of gas to burn in our power plants so that
4 those power plants which are currently fueled by
5 either gas or oil but can't get enough gas in the
6 winter would be able to burn gas at times of the year
7 when they otherwise could not. That's good for the
8 environment because you do get fewer emissions but,
9 more importantly, it gives us fuel diversity which is
10 another form of that same risk management. So these
11 are the kinds of things we think about as we make
12 decisions in the company. How can we be sure that
13 perhaps the costs that we have to charge our customers
14 in the future will be as low as it possibly can be.

15 Q. There's two different, I guess, approaches
16 to risk management. One is managing some of the risks
17 with future price increases and the other is managing
18 risk of price instability. The strategies could be
19 different. Which would you lean to?

20 A. Maybe you could rephrase that so I'm sure
21 I'm answering the right question.

22 Q. Well, I'm interested, is the goal of
23 maintaining stable prices for your customers a more
24 important goal than making sure that -- I don't want
25 to say the word making sure but of trying to minimize

00203

1 long run price increases or do you see those
2 consistent?

3 A. I would call them consistent that I think
4 we're trying to do both in a very real way. We want
5 to, if possible, never do another rate case and pass
6 savings through in some way down the road in the
7 future. That would be great. On the other hand, we
8 also want to be positioned that if the world stays the
9 same and customers continue to be served by a utility
10 that they're getting prices that they consider fair
11 because we've made smart long-term decisions. But
12 it's in our self-interest to do that anyway because
13 if the world doesn't stay the same and we have to
14 compete for those customers, we'll be more successful
15 if we've made good long-term decisions.

16 COMMISSIONER GILLIS: Thank you.

17 JUDGE CANFIELD: We're around the time for
18 a break but let me see if there's any questions on
19 redirect for Mr. Higgins.

20 MR. MEYER: Yes.

21

22 REDIRECT EXAMINATION

23 BY MR. MEYER:

24 Q. Just a fairly brief line of questioning
25 following up on line of questioning from Ms. Williams.

00204

1 You were directed by her to page 17 of your testimony,
2 which was a short form summary of at least some of the
3 reasons why you believe that regulators ought to
4 approve this merger. Do you recall that line of
5 questioning?

6 A. Yes, I do.

7 Q. And without meaning to catalog or summarize
8 all the benefits of this merger, would you agree,
9 number one, that as a result of this merger customers
10 will benefit as a result of significant cost savings
11 that would keep rates lower than they otherwise would
12 have been?

13 A. Yes, I would.

14 Q. Would you agree secondly that as a result
15 of this merger the quality and reliability of service
16 will not suffer?

17 A. I would.

18 Q. Would you agree thirdly that this merger
19 allows for a certain amount of strategic positioning
20 in a new competitive environment?

21 A. I do.

22 MS. JOHNSTON: Excuse me. Are you going to
23 ask an open-ended question here at some point? He's
24 leading the witness.

25 MR. TROTTER: This is directly leading the

00205

1 witness. I will join the objection.

2 JUDGE CANFIELD: Are you going to get to a
3 question or are you just more or less setting up? I
4 guess, his testimony, we've got that in the record. I
5 guess I would tend to agree with the objections unless
6 it was just prefatory to a question you might be
7 coming to.

8 MR. MEYER: Well, actually the objective
9 was to provide a sort of listing that counsel Williams
10 seemed to be striving for, just a cataloging of the
11 reasons why this merger is in the public interest and
12 in the interests of time I was just trying to shortcut
13 that discussion, but --

14 JUDGE CANFIELD: In view of the objections
15 maybe you could --

16 MR. MEYER: Sure.

17 Q. We talked about a number of things. With
18 respect to your colloquy with other counsel on how
19 stake holders benefit, in terms of how each of the
20 affected stake holders should or would receive this
21 merger, what is your assessment?

22 A. As we have attempted to structure the
23 merger and based on Mr. Redmond's philosophy and mine,
24 and those are philosophies that are currently being
25 carried out and lived up to by the companies, the

00206

1 merger should be good for the community. It should be
2 good for the customers. It should be good for
3 economic development in the community. It should be
4 something that makes it a business that is served by
5 these companies more competitive in the global markets
6 and in the long run anything we do to make our
7 companies more competitive should be good for our
8 shareholders.

9 MR. MEYER: That's all I have. Thank you.

10 JUDGE CANFIELD: Any follow-ups from
11 anyone?

12 With that, thank you, Mr. Higgins, and
13 we'll take our afternoon break and let's come back at
14 20 after 3.

15 (Recess.)

16 JUDGE CANFIELD: We're back on the record
17 after an afternoon break, and upon consideration
18 before we get too far afield from Mr. Higgins, I want
19 to reflect back to the record requisition No. 4 and
20 the request that that be also provided as a bench
21 request. Can we do that, Mr. Meyer?

22 MR. MEYER: Absolutely.

23 JUDGE CANFIELD: So that will be bench
24 request No. 1. You can refer back to the notes and
25 transcript to get the full description on that, but

00207

1 that's the validation that was referenced earlier, and
2 that's bench request No. 1. And we had some earlier
3 discussion regarding the introduction of deposition
4 testimony which we'll be coming too momentarily as
5 well, but let's just deal with it in order. First
6 I'll ask Mr. Meyer if he's ready to proceed with his
7 next witness.

8 MR. MEYER: Call to the stand Mr. Ely.
9 Whereupon,

10 GARY ELY,
11 having been first duly sworn, was called as a witness
12 herein and was examined and testified as follows:

13 JUDGE CANFIELD: It's already been noted in
14 the record that we did preassign exhibit numbers to
15 the prefiled direct testimony of Mr. Ely as Exhibit
16 T-9 and accompanying exhibits 10 through 15, so with
17 that, Mr. Meyer.

18 MR. MEYER: Thank you.

19

20 DIRECT EXAMINATION

21 BY MR. MEYER:

22 Q. For the record, your name and employer and
23 position?

24 A. My name is Gary J. Ely. I'm employed by
25 the Washington Water Power Company as vice-president

00208

1 of natural gas.

2 Q. Have you prepared and prefiled direct
3 testimony in this case?

4 A. Yes, I have.

5 Q. Marked As Exhibit T-9?

6 A. Yes.

7 Q. Do you have changes to make to that?

8 A. I have no changes.

9 Q. Are you also sponsoring what have been
10 marked for identification as Exhibits 10 through 15?

11 A. Yes, I have.

12 Q. Do you have changes to make to those
13 exhibits?

14 A. No, I do not.

15 Q. If I were to ask you the questions that
16 appear in your prefiled testimony would your answers
17 be the same?

18 A. Yes, they would.

19 MR. MEYER: With that, Your Honor, I move
20 for the admission of T-9, 10, 11, 12, 13, 14 and 15.)

21 JUDGE CANFIELD: Any objections?

22 Let the record reflect there are none.

23 Exhibits T-9 and 10 through 15 are entered into the
24 record.

25 MR. MEYER: Witness is tendered.

00209

1 (Admitted Exhibits T-9, 10 - 15.)

2 MS. JOHNSTON: Your Honor, I move the
3 admission of the deposition transcript of Mr. Ely's
4 deposition which I distributed this morning along with
5 the corresponding transcript corrections that Mr.
6 Meyer provided.

7 JUDGE CANFIELD: Those were a packet of
8 information that was distributed early in the morning
9 and we did indicate we would come back to that. Let
10 me assign the next exhibit number to that testimony of
11 Gary Ely as next exhibit number in order and that will
12 be Exhibit 52, and I will assign the corrections which
13 are not only to Mr. Ely's deposition testimony but
14 apparently to all of the deposition transcripts
15 collectively marked together as Exhibit No. 53, and
16 you would be offering those, then, Ms. Johnston?

17 (Marked Exhibits 52 and 53.)

18 MS. JOHNSTON: Yes.

19 JUDGE CANFIELD: And we'll deal with the
20 other deposition transcripts.

21 MS. JOHNSTON: As we go.

22 JUDGE CANFIELD: Any objections to those
23 added exhibits 52 and 53?

24 MR. MEYER: None.

25 JUDGE CANFIELD: Exhibits 52 and 53 are so

00210

1 entered into the record.

2 (Admitted Exhibits 52 and 53.)

3

4 CROSS-EXAMINATION

5 BY MS. JOHNSTON:

6 Q. Mr. Ely, in your testimony and supporting
7 work papers you estimated that the total savings in
8 gas costs as a result of the merger will be
9 approximately 70.6 million dollars over 10 years; is
10 that correct?

11 A. That is correct.

12 Q. And did you break this \$70.6 million
13 estimate down into several different categories of
14 cost savings including savings from purchasing larger
15 packages, improving load factors on existing gas
16 contracts, shifting supplies from winter-only to
17 annual contracts and a few other categories?

18 A. Yes, I did.

19 Q. Like to ask you a few questions about the
20 analysis that was performed or undertaken to estimate
21 the savings for these categories. First let me ask
22 you about the analysis that Water Power used to
23 estimate the savings from increased purchasing power.

24 MS. JOHNSTON: Your Honor, like to have
25 these marked as the next exhibit in line, please.

00211

1 JUDGE CANFIELD: There are two separate
2 documents that were just distributed.

3 MS. JOHNSTON: Yes.

4 JUDGE CANFIELD: Mark the first one here,
5 says date prepared 11-22-94. I will mark that as
6 Exhibit No. 54 and the second one, date prepared
7 11-30-94, as Exhibit 55.

8 (Marked Exhibits 54 and 55.)

9 Q. Mr. Ely, are you familiar with what's been
10 marked for identification as Exhibits 54 and 55?

11 A. Yes, I am.

12 Q. Are these responses to staff data request
13 prepared by you?

14 A. They were prepared under my direction, yes.

15 MS. JOHNSTON: Your Honor, move the
16 admission of Exhibit 54 and 55.

17 JUDGE CANFIELD: Any objections?

18 MR. MEYER: No objection.

19 JUDGE CANFIELD: Exhibits 54 and 55 are so
20 entered into the record.

21 (Admitted Exhibits 54 and 55.)

22 Q. Please turn to Exhibit 54 first. Staff
23 data request 35 was a follow-up to an earlier data
24 request concerning how the company estimates the
25 savings from increased purchasing power. Based on

00212

1 your response it appears that the company relied on
2 its experience and judgment rather than conducting any
3 econometric analysis of forecasting model to estimate
4 the savings due to increased purchased power. Is that
5 a fair statement?

6 A. It would be a fair statement that we did
7 not use any modeling to assess that, that is correct.

8 Q. In data request, staff data request 40,
9 Exhibit 55, staff asked for all the analysis that the
10 company used to estimate a savings of .075 MMBTU due
11 to improving load factors on annual contracts, and
12 here again based on the company's response it appears
13 that these savings were based on the company's
14 experience rather than on any solid analysis. Is that
15 also a fair statement?

16 A. When you say not based on any solid
17 analysis, I would say it's a fair statement we did not
18 use the IRP model to take and determine these cost
19 savings, that is true.

20 Q. And why is it that the company did not use
21 any econometric modeling or the company's IRP model to
22 estimate any of the gas cost savings?

23 A. From the IRP model, as you are aware of, we
24 announced the merger at the end of June, very late in
25 June. At that time none of the staff was aware that

00213

1 the merger was even going on. We were also in the
2 process of completing our IRP for both Washington and
3 Idaho and Oregon and had gone through all the public
4 hearings with that and was finalizing the drafts to be
5 submitted both to this Commission and the other
6 commissions. To input the data and such, it's about a
7 two-year process to go through and do, number one.
8 Number two, we did not have access to any of the --
9 staff did not have access to any of the Sierra data
10 nor was it necessarily compatible to put into the
11 model. We're also in the process this year of
12 converting from our old IRP modeling process to
13 Transacted which will allow us I think a lot more
14 flexibility and a lot better econometric modeling
15 going forward, and that's still in the process of
16 being converted, and the current schedule calls for
17 that to be completed in March of -- actually April 1
18 of 1995.

19 Q. You mentioned that you didn't have access
20 to Sierra data. Is that because of confidentiality
21 concerns?

22 A. Yeah, right. I said my staff did not have,
23 and yes, that is correct.

24 Q. Like to shift now to a few questions about
25 how gas supplies can be procured if a merger is

00214

1 consummated. Several other of Water Power's witnesses
2 have explained that Water Power will operate as
3 separate operating divisions of Resources West should
4 the merger be completed. Does that condition hold for
5 the gas merchant roles of each gas operation also?

6 A. No. In fact it's envisioned that the gas
7 purchasing, a lot of the savings are contingent upon
8 being able to purchase in large quantities, to
9 purchase under contracts that would have improved load
10 factors and to -- and additionally be able to maximize
11 the transportation that each of the companies holds on
12 the various systems. In order to do that, the
13 purchasing has to be done as an entity not as an
14 individual division. An example would be currently
15 in our WP natural gas territories, which is the old CP
16 National, there was a five-year rolling contract when
17 we purchased those and we were not able to roll those
18 into our purchasing -- I guess our purchasing
19 practices of the Water Power. Their WACOG is
20 currently higher than Water Power because of that,
21 because they were bought as a separate entity. That
22 contract expires at the end, actually, in October of
23 this year -- excuse me, in October of '96, and then it
24 would be rolled into the total buying group and that
25 will improve our practices as far as being able to get

00215

1 larger quantities and better load factors.

2 Q. So you would envision that the companies
3 will manage one supply portfolio?

4 A. When you say one supply portfolio, we would
5 manage it as a supply portfolio coming out of many
6 basins with many different producers and marketers
7 providing that, that is correct.

8 Q. Presumably you're aware that as a way to
9 share the merger benefits with ratepayers Water Power
10 has proposed a freeze on both electric and gas-based
11 rates for five years. Are you familiar with that?

12 A. Yes, I am.

13 Q. And that rate freeze will not, however,
14 have any impact on the savings presented in your
15 testimony, will it?

16 A. No, it will not. It is intended that
17 all gas costs will be tracked through to the various
18 jurisdictions.

19 Q. Please turn to your Exhibit 15 which
20 apparently is blown up on a board behind you.

21 A. I have that.

22 Q. The top section of your Exhibit 15 shows
23 the forecasted gas volumes purchased for each of the
24 divisions. The savings from increased purchasing
25 power of \$23.3 million was estimated based on these

00216

1 volumes. Is that true?

2 A. Yes, it is.

3 Q. Based on your Exhibit 15, are you willing
4 to accept subject to check that over the 10-year
5 period shown Washington Water Power will account for
6 42 percent of firm sales while Sierra accounts for 58
7 percent of those sales?

8 A. Subject to check. It sounds like a
9 reasonable estimate.

10 Q. So based on how you estimated the savings
11 from increased purchasing power, Washington Water
12 Power will be responsible for about 42 percent of
13 those cost savings and Washington Water Power's
14 ratepayers would presumably receive those benefits
15 through the gas cost tracker; is that correct?

16 A. That would be true. I might mention, it
17 isn't necessarily Water Power. It would be Resources
18 West buying the gas for the total entity and then the
19 purchased gas forecasted volumes, the savings from
20 there were intended to be split on a volumetric basis,
21 and Mr. Buergel can address that more but it's
22 basically split on the amount of gas that's purchased.

23 Q. Do you have Mr. Buergel's Exhibit 48
24 available to you?

25 A. I believe probably get it here quick.

00217

1 Yes, I have that exhibit.

2 JUDGE CANFIELD: And there were a couple of
3 revisions so let's make sure we're dealing with the
4 same one.

5 THE WITNESS: Mine says revised 1-24-95.

6 MS. JOHNSTON: I have the revised exhibit
7 before me also.

8 JUDGE CANFIELD: Revised 1-24-95. There
9 was one revised earlier than that even, so, okay.

10 Q. Please turn to page 1 of that exhibit.

11 A. I have that.

12 Q. Now, according to Mr. Buergel's direct
13 testimony at page 12, this allocation study was
14 supposedly prepared to be representative of how post-
15 merger benefits will actually be allocated. Is that
16 true?

17 A. I believe that's true.

18 Q. Exhibit 48 revised shows the allocation of
19 merger savings to Washington Water Power and Sierra
20 for the years 1996 through 2005. Is that correct?

21 A. Yes.

22 Q. Do you see line L labeled gas supply
23 purchasing power?

24 A. On page 1?

25 Q. On page 1.

00218

1 A. Yes, I do.

2 Q. This \$23,438,000 minus the adjustments
3 shown of \$108,000 is the 23.3 million from your
4 Exhibit 15. Is that true?

5 A. That would be true.

6 Q. Who was responsible for how this 23.3
7 million was allocated between the divisions?

8 A. That was Mr. Buergel.

9 Q. Exhibit 48 shows that savings from
10 increased purchasing power were allocated by
11 allocation methodology 10 at the bottom of the page
12 lower left-hand?

13 A. Yes, I see.

14 Q. From this allocation code table -- strike
15 that.

16 Looking at the allocation factor of the
17 table, it looks as though Mr. Buergel's Exhibit 48
18 allocated 53.6 percent of these costs to Washington
19 Water Power. Would you accept that subject to check?

20 MR. MEYER: Your Honor, I believe the
21 answer to the previous question established that this
22 witness wasn't responsible for preparing this document
23 or the development of these or application of these
24 allocators so I think having established that these
25 questions are properly addressed to Mr. Buergel.

00219

1 MS. JOHNSTON: Well --

2 Q. Mr. Ely, are you capable of answering my
3 question?

4 A. And the question again was?

5 Q. Exhibit 48 shows the savings from increased
6 purchasing power were allocated by allocation
7 methodology 10 and looking at the allocation factor in
8 that table it appears Mr. Buergel's Exhibit 48
9 allocated 53.6 percent of these costs to Washington
10 Water Power.

11 A. That's what the table says, that's correct.

12 Q. And allocation factor 10 is different than
13 the way you estimated the savings would be generated.
14 Is that true?

15 A. No, I don't believe that it was any
16 different than what I had indicated to you.

17 Q. But doesn't your Exhibit 15 show that
18 Washington Water Power would account for 42 percent of
19 the savings?

20 A. Well, you gave me that number, and said
21 subject to check, and I have not checked it so I can't
22 affirm or deny whether that's correct or not. The
23 intent conceptually, if this will help, was to take
24 the total gas purchases and then allocate them based
25 on the total therm throughput to the various

00220

1 jurisdictions. Now, whether that included transport
2 or not, I'm not sure, and Mr. Buergel would be best to
3 address those issues because that may be some of the
4 differences in the figures.

5 Q. We'll ask those questions of Mr. Buergel
6 then. Since a gas cost tracker is filed at least once
7 every year, the lower gas costs due to increased
8 purchase power, purchasing power, will flow to
9 Washington Water Power much like the sales shown on
10 your Exhibit 15 which shows sales in each successive
11 year rather than based on 1993 therm sales. Isn't
12 that true?

13 A. If I understood the question you're asking
14 me, because we file an annual PGA that the gas cost or
15 the cost savings would flow through to the customer on
16 an annual basis and the answer to that would be yes.

17 Q. Please refer again to Mr. Buergel's Exhibit
18 48 revised. Lines just below what has been identified
19 as line L entitled Gas Supply - Sand and Gas Supply -
20 Woods. Do you see those?

21 A. Yes, I do.

22 Q. I'm going to refer to sand as line M and
23 woods as line N just to make things a little bit
24 easier. Line M and N are 10.2 and 29.3 million; is
25 that correct?

00221

1 A. That is correct.

2 Q. This exhibit appears to show that line M
3 was directly assigned to Sierra and line N was
4 directly assigned to Washington Water Power; is that
5 correct?

6 A. That's what it would show, yes.

7 Q. Who is responsible for deciding to directly
8 assign these two items directly to the division? Mr.
9 Buergel?

10 A. As I indicated earlier, Mr. Buergel worked
11 up all of the allocation. My participation in this
12 was working up the savings and where they would come
13 as a combined entity and then Mr. Buergel took those
14 numbers and worked through how they would be allocated
15 amongst the state.

16 Q. Is line M, Gas Supply - Sand, the summation
17 of savings from from establishing a winter exchange
18 contract, a summer balancing contract and fixing a
19 variable price contract for Sierra?

20 A. Yes. If you look on my Exhibit 15, it's
21 under contract LDC savings, and in fact as indicated
22 winter exchange contract, summer balancing contract,
23 winter pricing contract with Sierra under each one of
24 those those, and then it says subtotal Sierra, and if
25 you move to the right of the total of that amount,

00222

1 10,234,000, which would agree with line M as you have
2 so indicated on Mr. Buergel's Exhibit 48.

3 Q. What is line N a summation of?

4 A. Line N where it says Gas Supply - Woods, as
5 you so indicated on that exhibit, would compare to
6 that group of savings on my Exhibit 15 just above that
7 that says load factor LDC savings, winter supply
8 purchases at annual contract prices and improved load
9 factor for existing annual contracts, and it says
10 subtotal WWP WPNG and that number would be that
11 amount.

12 Q. I believe you testified earlier that gas
13 cost savings would be realized only by managing gas
14 supplies for Resources West as one supply portfolio
15 rather than as two individual portfolios. Is that
16 true?

17 A. That's true.

18 Q. And the savings on line M and N on Exhibit
19 48 would thus have to flow through the gas cost
20 tracker and not be directly assignable to the
21 different operating divisions. Doesn't that follow?

22 A. Well, when you say -- I think we need to
23 clarify maybe what I said earlier. I said the
24 assumptions that were made to obtain the savings was
25 to manage the supply portfolio as one entity not as

00223

1 separate divisions. Some of these savings could
2 possibly be partially achieved by the individual
3 divisions but could not fully be realized without
4 working them together, and I will give you an example.

5 The load factor savings that we have worked
6 for Washington Water Power that we directly assign
7 there, I think that's an issue that the staffs of the
8 various commissions need to take and work through with
9 Mr. Buergel as we move forward, because those savings
10 are all attributable to the increased load factors on
11 the Washington Water Power annual contracts. Now,
12 it's only achievable if you have the generation load
13 by which you can take that summer valley and fill up
14 with electric generation, so in that sense it requires
15 the two companies to be together in order to do that
16 or some other large load that you would have to
17 negotiate and add in, in order to take and achieve
18 those same types of savings. Maybe not very clear
19 on that.

20 Q. Given that you envision one portfolio, is
21 it your opinion that these savings need to be directly
22 assigned or allocated?

23 A. You're asking for my opinion or what Mr.
24 Buergel has done with them.

25 Q. You have differing opinions on this?

00225

1 Buergel, but up until now they're going his way.

2 MS. JOHNSTON: Your Honor, I would like to
3 have this marked as Exhibit 56 for identification.

4 JUDGE CANFIELD: For the record, Ms.
5 Johnston did just distribute a document which will be
6 No. 56 for identification.

7 (Marked Exhibit 56.)

8 Q. Mr. Ely, are you familiar with what's been
9 marked for identification as Exhibit 56 as attachment
10 F to Mr. Flaherty's response to staff data request
11 124?

12 A. I have not seen it before. I am looking at
13 it now.

14 Q. Please take a moment to familiarize
15 yourself with it, please.

16 A. I believe this was the piece that was
17 prepared as we were doing due diligence and merger.
18 Is this correct?

19 Q. Yes, I believe so.

20 A. Yes, I'm familiar with it.

21 Q. This identifies where Resources West
22 different functions would be located. Would you
23 agree?

24 A. It is a preliminary identification of
25 possible locations, that is correct.

00226

1 MR. MEYER: Excuse me, sorry to interrupt
2 your flow. Just so we can locate our copy of the data
3 response, this was provided under response to which
4 number?

5 MS. JOHNSTON: 124.

6 MR. MEYER: If we could have just a moment,
7 please.

8 Very well. Thank you.

9 Q. Please turn to page 87. It's written in.

10 A. The written numbers.

11 Q. Handwritten at the bottom of the page?

12 A. I have that.

13 Q. Go down the column to natural gas. It's
14 the last section at the bottom of the page.

15 A. I see that.

16 Q. With the exception of gas engineering, all
17 other functions such as acquisition, marketing,
18 pipeline and regulatory affairs and strategy are
19 moving to Reno. Is that true?

20 A. No.

21 Q. At least preliminarily?

22 A. It was a preliminary indication of where
23 they might possibly move to.

24 Q. Has this been updated?

25 A. I think in Walt and Paul, Mr. Redmond's and

00227

1 Mr. Higgins's presentation to the employees, they have
2 suggested lines of business which would affect this
3 and in fact natural gas would no longer exist as a
4 department in itself, and may be in one or two other
5 functions. So this is probably no longer accurate.

6 Q. As the next record requisition, please, I
7 would like to have this updated so we have current
8 information as to --

9 A. Ms. Johnston, that's really what the
10 transition teams are doing. That will be available on
11 March 13. Part of the work that they will be doing,
12 in addition to quantifying the savings, will be making
13 recommendations as to locations and where those
14 locations might be or those functions might be
15 located. So that material will be coming on the 13th
16 in a previous data request and that's as soon as it
17 will be available.

18 Q. So this information will be included in
19 that transition team report?

20 A. Yes. It probably will not be in exactly
21 the same form but it will have the same information.
22 And it should be, as I indicated earlier, probably 80
23 to 90 percent correct and you won't know that until
24 you know how many people have elected severance, how
25 many people have elected early retirement options, and

00228

1 that may make a difference where some of these
2 functions end up. If you're talking about a few
3 people, for instance in the gas acquisition, we only
4 have two people that do that in our company, and it
5 may depend on what happens whether or not it's located
6 in Spokane or Reno.

7 MS. JOHNSTON: Your Honor, I want to move
8 the admission of Exhibit 56.

9 JUDGE CANFIELD: While we're on that --
10 well, let me ask, any objections to Exhibit 56?

11 MR. MEYER: Might I just have a moment?

12 JUDGE CANFIELD: Go ahead. While we're on
13 that, maybe clarify, Ms. Johnston, you're not
14 requesting a specific record requisition on that last
15 matter then since it's already included in a prior
16 request?

17 MS. JOHNSTON: That's correct.

18 JUDGE CANFIELD: Okay.

19 MR. MEYER: We're ready and we don't have
20 an objection.

21 JUDGE CANFIELD: Exhibit 56 is so entered
22 into the record.

23 (Admitted Exhibit 56.)

24 MS. JOHNSTON: Your Honor, I have some
25 questions that contain confidential information or

00229

1 elicit confidential information by way of response of
2 the witness so I suppose it's necessary to go in
3 closed session for these five questions.

4 JUDGE CANFIELD: If there's no other way
5 around it, that's what we would be looking at.

6 MR. MEYER: I would be happy to take a
7 few minutes to explore whether in fact we would be
8 willing to waive. I don't know what the questions
9 are. Maybe they're the kind of questions we can waive
10 the confidentiality on. I don't know.

11 JUDGE CANFIELD: Maybe a short break might
12 facilitate matters, so let's just take a short break
13 off the record then and counsel can discuss matters.

14 (Recess.)

15 JUDGE CANFIELD: We're back on the record
16 after a short recess during which time I don't know
17 what was resolved. Maybe one or the other can
18 clarify.

19 MR. MEYER: Well, I will be happy to go
20 ahead. I believe staff counsel was suggesting the
21 need to go into closed session because of an item that
22 we had identified as a confidential item involving a
23 consultant study of the water system, and we
24 understand your reluctance to go into closed session
25 and in reviewing this we're prepared to waive the

00230

1 assertion of privilege on this so let's just go after
2 it and see where it goes.

3 JUDGE CANFIELD: There was a document
4 distributed during the break. Is that a document
5 that you're going to ask to be marked?

6 MS. JOHNSTON: Yes, please. Exhibit 57.

7 JUDGE CANFIELD: 57 nonconfidential
8 exhibit. This is the document you were just referring
9 to, Mr. Meyer?

10 MR. MEYER: I was referring to response to
11 request No. 24C.

12 JUDGE CANFIELD: Yes. That's the one we
13 just described. That will be marked as Exhibit 57,
14 and there's no claim of confidentiality to that even
15 though it is marked confidential along each of the
16 pages then.

17 MR. MEYER: Correct.

18 JUDGE CANFIELD: So noted, and I guess you
19 can draw a line through it or disregard the marks on
20 each of the pages. That's marked as general Exhibit
21 57.

22 (Marked Exhibit 57.)

23 Q. Mr. Ely, do you recognize Exhibit 57 for
24 identification?

25 A. Yes, I do.

00231

1 Q. What is it?

2 A. This is a study that we had entertained
3 during due diligence because we knew very little about
4 Sierra's water system so we hired a consultant to come
5 in and do due diligence for us and provide to us their
6 thoughts on whether the water system was in an
7 acceptable form or not.

8 MS. JOHNSTON: Your Honor, I move the
9 admission of Exhibit 57.

10 JUDGE CANFIELD: Any objections?

11 MR. MEYER: No objection.

12 JUDGE CANFIELD: Exhibit 57 is so entered
13 into the record, and on the official copy I will draw
14 a line through the confidential stamp on the pages and
15 as indicated party can do likewise on theirs. So
16 entered as a general Exhibit 57.

17 (Admitted Exhibit 57.)

18 MS. JOHNSTON: Thank you.

19 Q. Beginning on page 10 of your testimony you
20 discuss Sierra's water service area. Do you recall
21 that?

22 A. I will turn to that, but yes, I do recall
23 discussing it, and I have that.

24 Q. Does this consultant's report form the
25 basis of your understanding of Sierra's water system

00232

1 and service area?

2 A. Yes, it does. As added to by the employees
3 that were part of the merger team.

4 Q. What is it that the consultants and you
5 relied upon to gain knowledge of Sierra's water
6 business?

7 A. Pardon? What did we rely upon?

8 Q. Yes.

9 A. First off we relied upon during due
10 diligence the input from the merger team that had
11 knowledge of the water system. Secondly, we were able
12 to get various documents and we shipped back to the
13 consultant to have them review in order to give us an
14 opinion.

15 MS. JOHNSTON: Your Honor, as the next
16 record requisition we would ask that Mr. Ely provide
17 all the data upon which he and consultant relied to
18 gain knowledge of Sierra's water business.

19 JUDGE CANFIELD: Next record requisition
20 number is No. 6.

21 (Record Requisition 6.)

22 Q. Will you provide us?

23 A. Oh, yes.

24 Q. Do you generally agree with the facts and
25 the opinions stated in the consultant's report?

00233

1 A. Yes.

2 Q. Would you agree that water is a rising cost
3 utility industry?

4 A. Would I agree that water is a rising cost
5 utility industry?

6 Q. Yes.

7 A. In general across the industry?

8 Q. Yes.

9 A. Yes.

10 Q. I just have one more question for you. Out
11 of curiosity, the letter dated May 1, 1994 is
12 addressed to you at WIDCO. How is WIDCO involved in
13 the merger transaction?

14 A. That was our cover. Since we were trying
15 to keep this -- and Mr. Pierce can talk to this more,
16 but since we were keeping this to very limited few in
17 the company, during the due diligence to see whether
18 we would go ahead with the merger or not, we had an
19 off-site office; so it would not raise suspicion we
20 called it WIDCO. It used to be one of our operating
21 subsidiaries and it was easy, I guess, to use that as
22 a cover for lack of a better word.

23 MS. JOHNSTON: Thank you. That's all I
24 have.

25 JUDGE CANFIELD: With that, by default,

00234

1 you're next, Mr. Trotter. Ms. Williams said she would
2 not be here the rest of the day but would be back
3 on Thursday.

4

5 CROSS-EXAMINATION

6 BY MR. TROTTER:

7 Q. Referring to Exhibit 15 which has been
8 staring at us for a while on the wall there. If we
9 take a look at this exhibit in the year 1999 and ask
10 you to recreate what actually happened in 1997 and
11 1998 and 1999 and compared that actual experience with
12 this chart, would that be a test as to whether you
13 have measured the benefits accurately or how would we
14 confirm that your estimates of savings are actual and
15 accurate?

16 A. I think, Mr. Trotter, that's a good
17 question and probably a very difficult one to answer,
18 because as most of the data in here was based on a \$2
19 gas price, two weeks ago you could buy gas at 80 cents
20 on the spot market, so there's a lot of volatility in
21 gas prices, so to measure it on the actual dollar
22 savings you may not be able to find it. I may be able
23 to show much greater savings because of gas prices or
24 much less, and I think what we have to do is realize
25 that long-term gas prices will probably be \$2 to \$2.25

00235

1 and increase over time, probably in real rates of
2 maybe 1 percent. I think we could go and look at the
3 actual throughput as an example, but there again, it
4 will depend on what additions to customers, what
5 economic growth and a lot of effects in that sense.

6 A better measurement, and I've struggled
7 with this a little bit, because even for our own
8 people how are we going to monitor and insure that we
9 in fact do come up with those savings, might be
10 looking at the number of current winter-only contracts
11 that we have and see how many we in fact then move to
12 annual contracts. Look at the bid prices that go
13 out, and in one of my exhibits I showed, demonstrated,
14 I think on a bid basis, that the larger packages in
15 fact were cheaper and the higher load factor packages
16 were cheaper in price and that's for a number of
17 reasons, for the producer, but I think that was
18 demonstrated in those bid prices and we can look at
19 those to the future, because I think the actual values
20 of natural gas prices could vary up and down and it
21 would be very difficult to reduplicate this exhibit
22 three years hence.

23 Q. Let me ask you this way. Does the company
24 have any specific plan for how it will measure merger
25 benefits as a result of the synergies resulting in

00236

1 natural gas supply trends transactions?

2 A. At this point we are discussing the
3 potential ways of doing that and we will -- it will be
4 developed over time.

5 Q. And could you tell me, is this one of those
6 things that's going to happen in March or when is that
7 going to happen?

8 A. No, this will not be one of those things
9 that happens in March. Part of the things that will
10 have to be done is looking at how -- first off, what
11 the recommendations are coming out in March.
12 Certainly the teams will be looking at the validation
13 of the figures that were provided here. There's a
14 number of assumptions behind these numbers, and the
15 assumptions include the Tescororas built, for
16 instance, and secondly that 90,000 a day flows to the
17 electric generation in Sierra's division. If,
18 for instance, if Tuscarora wasn't built that would
19 affect the numbers, so with those things in mind, you
20 will see a piece of that in March but it will really
21 be an ongoing development over probably up until
22 almost the merger is consummated. The other thing I
23 might add is that all the savings under these
24 categories currently are indicated to be tracked to
25 the various jurisdictions, so they may be more or less

00237

1 but they will be tracked.

2 Q. Well, everything gets tracked, doesn't it,
3 the good and the bad?

4 A. That's true.

5 Q. Probably should have asked this of Mr.
6 Higgins but you mentioned validation report. Isn't
7 your case a validation report? Why did Nevada want a
8 validation of what's being presented as sworn
9 testimony? Do you know?

10 A. I think they wanted a more refined -- and
11 I'm speaking only on opinion here, I think they wanted
12 to have a more recent look at it or more up-to-date
13 look at it or people look at it. If you remember, the
14 number of people who put these things together were
15 relatively small.

16 Q. So far every witness has sworn everything
17 is true here to the best of their knowledge. Are you
18 suggesting that your analysis needs refining?

19 A. No, I'm not. What I'm suggesting is that
20 under the scenarios that were put together are when we
21 put together the merger savings. If you remember
22 almost half of it is labor savings and when the teams
23 go through now based on the direction that Mr. Redmond
24 and Mr. Higgins have given them and locate the
25 individuals and how the company is actually going to

00238

1 be operated in their lines of business, that should be
2 a further validation of the numbers that are here. I
3 personally don't expect them to change or if they do
4 they would be very slightly.

5 Q. Well, the vision has been out there for a
6 while?

7 A. No. The vision has only been out there
8 two, three weeks ago, very new.

9 Q. So I suppose it's theoretically possible
10 that all of these exhibits may need to be revised in
11 some manner, depending on what comes out in a few
12 weeks, maybe, maybe not. We'll know it when we see
13 it?

14 A. You'll know it when you see it. It's
15 unlikely they would be revised very much but I think
16 it goes back to the question Ms. Johnston asked me
17 regarding the locations of the natural gas. That in
18 fact may be true. On the other hand, it may in fact
19 be located in Spokane and we won't know that until
20 those transition teams make their recommendation.
21 Then it will go through a process of being reviewed by
22 the steering committee, which is executive officers of
23 both companies, and once that is decided it will
24 continue to move forward.

25 MR. TROTTER: There's nothing much more I

00239

1 can ask. Thank you.

2 JUDGE CANFIELD: Commissioners, questions
3 for Mr. Ely?

4 CHAIRMAN NELSON: No.

5 COMMISSIONER HEMSTAD: I have none.

6

7 EXAMINATION

8 BY COMMISSIONER GILLIS:

9 Q. I have just a couple. Did you anticipate
10 any transportation bottlenecks that would just prevent
11 you from maximizing the benefits of the gas resource
12 under the merged enterprise?

13 A. I think the only transportation bottleneck
14 that could occur is if in fact the Tuscarora pipeline
15 was not built because there is not capacity on the
16 Pyautte pipeline to move the same amount of gas into
17 the electric generation system in Sierra that there
18 would be with the Tuscarora. It could be expanded,
19 too, but it would be on a different time horizon than
20 what is shown here.

21 Q. So for the most part the transportation is
22 there, the things that you need?

23 A. Yes.

24 Q. There's one statement in your testimony on
25 page 13 I didn't quite follow I was hoping you could

00240

1 explain to me. Beginning on line 25, "it is
2 anticipated that by managing the natural gas supplies
3 of gas distribution system together with the natural
4 gas requirements for electric generation it will be
5 possible to purchase additional natural gas supplies
6 on an annual basis instead of on the basis of winter-
7 only contracts." I think I understand what you mean
8 there, but do you have enough, I guess, electric
9 generation using gas at this point in your system that
10 it makes a major difference?

11 A. I have to apologize, Commissioner Gillis.
12 I was looking and not listening. Could you give me
13 the page again.

14 Q. On page 13 beginning on line 25 ending on
15 line 32.

16 A. Where it starts out on 24 "significant
17 additional savings"?

18 Q. Yeah. Then the sentence that follows it.

19 A. Okay.

20 Q. The suggestion there is that by using
21 natural gas for electric generation you're providing a
22 balancing function in the system, a seasonal balancing
23 function?

24 A. That's correct.

25 Q. And I guess my question for you is, do you

00241

1 have enough usage for electric generation at this
2 point in your system to make a major difference in
3 that balancing?

4 A. And are you talking about the Water Power
5 system or the combined system?

6 Q. The combined system.

7 A. The combined system with the addition of
8 Tuscarora which would increase the amount of electric
9 generation that would occur by natural gas in the
10 Sierra division, yes, there would be sufficient to
11 achieve these savings.

12 Q. Do you anticipate the construction of
13 additional generation capacity, electric/gas, electric
14 generation capacity for this purpose in your plants?

15 A. No. There's no additional generation
16 forecasted to achieve these results.

17 Q. Thanks.

18 JUDGE CANFIELD: Thank you. Questions on
19 redirect, Mr. Meyer.

20 MR. MEYER: I have none.

21 (Recess.)

22 JUDGE CANFIELD: We're back on record after
23 a short break between witnesses. Mr. Meyer, are you
24 ready with your next witness?

25 MR. MEYER: Yes. Call to the stand Mr.

00242

1 Jon Eliassen.

2 Whereupon,

3 JON ELIASSEN,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6 JUDGE CANFIELD: We did go ahead and mark

7 the prefiled testimony as Exhibit T-16 and

8 accompanying exhibits 17 through 26. Mr. Meyer.

9

10 DIRECT EXAMINATION

11 BY MR. MEYER:

12 Q. For the record, Mr. Eliassen, state your

13 name.

14 A. My name is Jon E. Eliassen.

15 Q. By whom are you employed and what is your

16 position?

17 A. I'm employed by the Washington Water Power

18 company. I'm vice-president finance and chief

19 financial officer.

20 Q. You prepared prefiled direct testimony

21 marked as T-16?

22 A. Yes, I have.

23 Q. Do you have changes to that?

24 A. No.

25 Q. Are you also sponsoring what has been

00243

1 marked for identification as 17 through 26?

2 A. Yes, I am.

3 Q. Changes to those?

4 A. No.

5 Q. So if I were to ask you the questions that
6 appear in your prefiled direct, would your answers be
7 the same?

8 A. Yes.

9 Q. Is the information in Exhibits 17 through
10 26 true and correct to the best of your information
11 and knowledge?

12 A. Yes, as filed, with the exception that some
13 modification has been made to one exhibit based on a
14 staff request or public counsel request, deposition
15 request.

16 Q. Understand.

17 MR. MEYER: With that I move the admission
18 of Exhibit T-16 and 17 through 26.

19 JUDGE CANFIELD: Any objections? Let the
20 record reflect there are none. Exhibits T-16 and
21 Exhibits 17 through 26 are so entered into the record.

22 (Admitted Exhibits T-16 and 17 - 26.)

23 MR. MEYER: The witness is available for
24 cross.

25 JUDGE CANFIELD: Ms. Johnston.

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1 MS. JOHNSTON: At the outset I would ask
2 that Mr. Eliassen's deposition transcript be admitted
3 into the record.

4 JUDGE CANFIELD: Let's mark that as the
5 next exhibit number in order and that will be marked
6 as Exhibit No. 58.

7 MS. JOHNSTON: He also has a confidential
8 portion.

9 JUDGE CANFIELD: And there was also
10 distributed confidential transcript that should be
11 marked as the next exhibit number and that will be
12 Exhibit C denoting its confidentiality, C-59.

13 (Marked Exhibits 58 and C-59.)

14

15 CROSS-EXAMINATION

16 BY MS. JOHNSTON:

17 Q. In the company's quantitative analysis of
18 the prospective merger, have any changes in bond
19 ratings or overall cost of capital been assumed and
20 quantified?

21 A. No changes in bond ratings and no changes
22 in cost of capital were assumed.

23 JUDGE CANFIELD: Before we get too far
24 beyond that, Ms. Johnston, were you going to be
25 offering those marked exhibits?

00245

1 MS. JOHNSTON: I thought I did. Yes, I do.
2 I move the admission of Exhibits 58 and C-59, please.

3 JUDGE CANFIELD: Any objections?

4 MR. MEYER: None.

5 JUDGE CANFIELD: Exhibit 58 is entered and
6 a confidential Exhibit C-59 is so entered.

7 (Admitted Exhibits 58 and C-59.)

8 MS. JOHNSTON: Sorry about that.

9 Q. So, Mr. Eliassen, no changes in the cost of
10 capital which may result from the merger are included
11 in the \$450 million savings estimate; is that correct?

12 A. That's correct.

13 Q. In deposition you were asked over what
14 time period did you believe that the merged company
15 will have a lower cost of capital than Water Power on
16 a stand-alone basis" and you responded 1997 to 1998
17 and beyond. Do you recall that testimony?

18 A. Yes.

19 Q. Under the company's proposal no decreases
20 in cost of capital would directly be passed through to
21 ratepayers during the rate freeze period; is that
22 correct?

23 A. There were no assumptions on changes in
24 cost of debt or preferred stock during that time
25 period. There is an, if you will, a pass-through in

00246

1 terms of earned return on equity during this time
2 period whereby if the return on equity falls, given
3 some of the material that we've forecast, the return
4 on equity would fall during this time period and would
5 be below the current allowed level by this Commission.

6 MS. JOHNSTON: Your Honor, I would like to
7 have deposition request No. 40 marked as Exhibit 60
8 for identification, please.

9 MR. MEYER: I should note that the
10 designated witness for this one is John Buergel. Was
11 there a piece of this that you thought appropriate for
12 this witness?

13 MS. JOHNSTON: Yes. The part that deals
14 with cost of money there, second paragraph, second
15 sentence. I would like to inquire regarding the
16 quote-unquote dramatic increase in the cost of money.

17 MR. MEYER: Okay. I don't have a problem
18 with that as long as the questioning doesn't go into
19 whether or not a dramatic increase in the cost of
20 capital would or wouldn't qualify for a carve-out
21 because the carve-out issue is Mr. Buergel's
22 responsibility.

23 MS. JOHNSTON: That's fine. Let's just see
24 how it goes.

25 MR. MEYER: Okay.

00247

1 JUDGE CANFIELD: Well, with that let's mark
2 that as the next exhibit number in order and that will
3 be marked as Exhibit 60 for identification.

4 (Marked Exhibit 60.)

5 Q. Direct your attention to the company's
6 response to deposition request No. 40 which you have
7 before you now. Under the company's proposal the
8 company would be allowed to request rate relief if
9 there were "a dramatic increase in the cost of money";
10 is that correct?

11 A. That's what this says, yes.

12 Q. Please quantify what is meant by dramatic.

13 A. Well, I guess this was not drafted by me
14 nor did I try to quantify what a dramatic increase
15 would be, but I assume that -- I guess I could assume
16 that if we were in the markets of the early '80s when
17 short-term debt was 22 percent and long-term bonds
18 were 16 percent and the cost of equity was whatever it
19 was at that time and the company had to do a
20 significant amount of financing, those things together
21 might quantify or constitute a dramatic increase in
22 the cost of money. I don't expect that to happen
23 between now and 1998 or the year 2000 but that's
24 dramatic, if those things were to occur.

25 Q. So for a definition of the phrase "dramatic

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1 increase in the cost of money" you would refer to the
2 early '80s?

3 A. Well, I think near term history, that's a
4 pretty good proxy in the case for dramatic increase in
5 cost of money, yes.

6 Q. On a forward-looking basis can you give us
7 your opinion as CFO of Washington Water Power as to
8 what a dramatic increase in the cost of money would
9 mean to you?

10 A. I think I just explained what would be
11 dramatic. I don't foresee any kind of a change in
12 that magnitude in debt rates or inflation rates or
13 cost of equity in the next five years.

14 Q. Please turn to page 4 of your direct
15 testimony. In the last line of that particular page
16 you discuss a need for reduction in short-term debt in
17 order to assure sufficient initial flexibility in
18 accessing capital. Do you see that?

19 A. Which line again?

20 Q. It begins at the bottom of page 4 and
21 continues on to the top of page 5.

22 A. Yes.

23 Q. What was the amount of outstanding
24 short-term debt for each of Washington Water Power and
25 Sierra Pacific when you drafted this testimony?

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1 A. I'm not sure I have those numbers in front
2 of me right now. I know that at the end of the
3 calendar year Water Power had \$53 million in
4 short-term debt but I don't have the Sierra numbers up
5 at the stand with me.

6 Q. Did you use year-end 1993 numbers as the
7 basis for this particular testimony?

8 A. That's what's shown on Exhibit 17, yes, but
9 I don't have the breakdown here with me. I think both
10 of those show total debt.

11 Q. As the next record requisition we would
12 like to have that information, please.

13 MR. MEYER: Just so I'm clear on that, as
14 of what date?

15 THE WITNESS: End of '93 and 1994.

16 MS. JOHNSTON: At the time Mr. Eliassen
17 wrote this testimony.

18 MR. MEYER: So that's the date?

19 THE WITNESS: That would be supportive then
20 of Exhibit 17 as filed.

21 JUDGE CANFIELD: That's record requisition
22 No. 7.

23 (Record Requisition 7.)

24 Q. In your opinion, what level should this
25 short-term debt be reduced to in order to insure

00250

1 initial sufficient flexibility in accessing capital?

2 A. Well, at any point in time short-term debt
3 for the company might equate to 8 to 10 percent of
4 total capital but shouldn't be maintained at that
5 level. The ultimate flexibility the company has when
6 they have a relatively large capital program or any
7 kind of capital needs is to have access to 50 to \$100
8 million of short-term debt. The need for flexibility
9 of short-term debt isn't driven just by a construction
10 program either. In the case of Water Power we've
11 always maintained one line of credit, one \$50 million
12 line, just to back commercial paper. We've also
13 maintained enough credit to fund the 49-day preferred,
14 the auction preferred that we have outstanding --
15 that's a \$50 million issue -- that if it couldn't be
16 remarketed at the end of any 49-day period would have
17 to be taken down with short-term debt. So we want to
18 have enough flexibility to have credit lines available
19 so that those things could be funded in the short-term
20 if necessary. So then it stands to reason that our
21 actual outstanding short-term debt might only average
22 4 to 6 percent through the year.

23 Q. Is 4 to 6 percent a short-term debt level
24 that you think needs to be had in order to insure this
25 flexibility you discussed?

00251

1 A. I think if you're in that range you have
2 more flexibility than if you're running 6 to 8 or 10
3 percent short-term debt, yes. But again I'm talking 4
4 to 6 percent average through the year. It will peak
5 at certain times.

6 Q. During deposition you indicated that each
7 company will issue medium-term notes and Sierra will
8 issue some additional common equity to reduce
9 outstanding short-term debt. Do you recall that
10 testimony?

11 A. Yes.

12 Q. You also indicated that this process is an
13 ongoing process. Do you recall that?

14 A. Yes.

15 Q. By how much has each company's outstanding
16 short-term debt been reduced since the filing of your
17 testimony?

18 A. Well, that I would -- as of today I would
19 not have that information in front of me. For
20 example, Washington Water Power issued \$15 million in
21 medium-term notes in the month of January and that was
22 a direct reduction of short-term debt, but I don't
23 have, again, January 31 numbers or December 31 numbers
24 in front of me. So I would have to provide that for
25 you as a requisition as well.

00252

1 Q. Would you do that, please?

2 A. Do you want that as of the end of the year
3 or today's date or up through the end of January?

4 Q. Well, I think --

5 MS. JOHNSTON: let me just state the record
6 requisition for the record, I believe would be number
7 --

8 JUDGE CANFIELD: Record requisition No. 8.
9 (Record Requisition 8.)

10 Q. Could you please provide the amount by which
11 short-term debt would be reduced since the time frame
12 used in your direct testimony and the method by which
13 it was reduced and the associated cost for both
14 Washington Water Power and Sierra Pacific?

15 A. Yes.

16 Q. Thank you. Also on page 4 of your
17 testimony lines 1 through 4 you state that Water Power
18 and Sierra Pacific had similar capital structures at
19 year end 1993. Do you see that?

20 A. Yes, I do.

21 Q. What is the current capital structure of
22 each company?

23 A. Well, again, I don't have the end of 1994
24 numbers in front of me for Sierra.

25 Q. I guess as the next record requisition we

00253

1 would ask that you update your Exhibit 17 for year-end
2 1994 numbers.

3 (Record Requisition 9.)

4 A. Okay. We can do that.

5 JUDGE CANFIELD: That's record requisition
6 No. 9.

7 Q. Please turn to Exhibit 17. Footnote 3
8 reads, "capital structure based on the Nevada
9 jurisdiction." What do you mean by that?

10 A. This is capital structure for utility
11 operations and I believe that this is a -- I don't
12 know if allocated is the right word but it's a derived
13 capital structure for the Sierra Pacific Power Company
14 in Nevada or Nevada operations. It does not include
15 California. It's also -- this is SPPC. This is Sierra
16 Pacific Power Company so it's an allocation of -- it
17 may be an allocation of certain debt but I would have
18 to verify that.

19 Q. Did you prepare this Exhibit 17?

20 A. I used the numbers that we were given, yes,
21 but I did not go back and verify the source of those.
22 This was prepared for me.

23 Q. How does the Nevada jurisdiction's capital
24 structure differ from the actual capital structure?

25 A. That -- well, I'm not sure that it does

00254

1 right now. I don't know the answer to the question.

2 Q. I would like to have an answer to that
3 question as record requisition 10, please.

4 (Record Requisition 10.)

5 JUDGE CANFIELD: No. 10 is the next record
6 requisition number in order.

7 MR. MEYER: Would you please restate the
8 request.

9 MS. JOHNSTON: We would like an explanation
10 of footnote No. 3, "capital structure based on the
11 Nevada jurisdiction," exactly what does that mean, and
12 we would like to know how the Nevada jurisdiction's
13 capital structure differs from the actual capital
14 structure.

15 Q. Please turn to page 6 of your testimony.

16 MR. MEYER: If I might have a minute, I
17 think a helpful clarification of whether you're
18 looking for actual cap structures for Nevada, are you
19 looking for it on the basis of SPPC, the Sierra
20 Pacific Power Company or Sierra Pacific Resources?

21 THE WITNESS: Well, maybe I can help with
22 that. I'm assuming we're going to make it for SPPC,
23 Sierra Pacific Power Company, because that's the basis
24 that Exhibit 17 was filed.

25 MR. MEYER: That's what you had in mind?

00255

1 MS. JOHNSTON: Yes.

2 JUDGE CANFIELD: Okay, so clarified.

3 Q. Beginning on line 1 of your testimony, page
4 6 you state, "Immediately after the merger and subject
5 to certain conditions, Resources West expects to
6 maintain the annual dividend paid by Water Power at
7 the effective date of the merger." Is that an
8 accurate reading of your testimony?

9 A. Yes, it is.

10 Q. Now, we established in deposition that the
11 quote-unquote certain conditions to which you refer
12 here is board action. Do you recall that?

13 A. Yes.

14 Q. And you stated that representations have
15 been made to you that the goal of Resources West is
16 "not to cut or otherwise eliminate the dividend." Do
17 you recall that?

18 A. Yes.

19 Q. Over what time period would it be
20 reasonable for Water Power shareholders to expect no
21 reduction from the \$1.24 dividend level?

22 A. Again, the only representation we make here
23 and the only thing that we've talked to investors
24 about is that they should expect that the dividend
25 immediately after the completion of the merger, when

00256

1 RWE is formed, the dividend at that time would be the
2 same dividend paid at that date by Washington Water
3 Power. We make no representations to time beyond
4 that. The board each quarter or at each regular
5 dividend meeting would have to review earnings,
6 prospective earnings, and the dividend policy to make
7 those decisions.

8 Q. Does "immediately after" mean the first
9 quarter then?

10 A. Well, I would read it as basically the day
11 after. You should assume that the day we trade as
12 RWE, which is the first day of the merged company, the
13 expected dividend or the dividend level at that time
14 is still assumed to be \$1.24 on an annualized basis.

15 Q. So what you're saying is that Resources
16 West may never pay \$1.24?

17 A. Well, as a practical matter, we can
18 represent the level that we expect, and that's what
19 I've testified to here, but each quarterly dividend is
20 set by the board, and the RWE board would have to meet
21 to set that first quarterly dividend. It's a board
22 action that's required for that and I'm not even sure
23 right now what date that board meeting is.

24 Q. So in your testimony on page 6 then at line
25 1 when you say immediately after the merger, you mean

00257

1 the day, the day after the merger?

2 A. Right.

3 Q. So we could substitute "immediately after
4 the merger" with the words "at the effective date of
5 the merger," "on the effective date of the merger"?

6 A. On the effective date of the merger and
7 subject to certain conditions Resources West expects
8 to maintain the annual dividend paid by Water Power.
9 Maybe "annualized dividend paid by" since it's a
10 quarterly action by the board.

11 Q. Do you believe that the annual dividend
12 paid by Water Power will be at the current level of
13 \$1.24 per share at the effective date of the merger?

14 A. Our current financial plans assume that,
15 and our current forecasting is based on assuming that
16 level of payment going forward to determine impacts on
17 the company.

18 Q. On page 6 of your testimony at line 25 you
19 discuss the external financing needs of both Sierra
20 and Water Power. Is that correct?

21 A. Yes.

22 Q. And you state that the external financing
23 needs of both Water Power and Sierra are significant.
24 Is that also correct?

25 A. Yes.

00258

1 Q. Please turn to your Exhibit 19.

2 A. I'm there.

3 Q. There it shows that Water Power has
4 projected absolutely no external financing needs in
5 1997, 1998 and only \$1 million in 1996. Is that true?

6 A. This shows that if you match internal cash
7 generation to capital expenditures, that's correct.
8 Internal cash generation from operations virtually
9 covers all of our capital expenditure requirements at
10 that point.

11 MS. JOHNSTON: Your Honor, like to have
12 this marked as Exhibit 61 for identification, please.

13 JUDGE CANFIELD: That is the next number in
14 order. We still have Exhibit 60 pending. We marked
15 that earlier and a few questions were asked on it. I
16 will mark this most recent document distributed as
17 Exhibit 61 for identification.

18 (Marked Exhibit 61.)

19 Q. Mr. Eliassen, can you identify what's been
20 marked as Exhibit 61?

21 A. It's basically a restatement of my Exhibit
22 19 to reflect the recently approved Washington demand
23 side management rider and the impact of that on
24 capital expenditures for demand side management and
25 the impact on internal cash generation, if there is

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1 any, through the 1994-1998 time period.

2 Q. So this was prepared by you in response to
3 a deposition request?

4 A. Yes.

5 MS. JOHNSTON: Move the admission of
6 Exhibit 60 and 61, Your Honor.

7 JUDGE CANFIELD: Any objections?

8 MR. MEYER: None.

9 JUDGE CANFIELD: Exhibits 60 and 61 are so
10 entered into the record, and maybe during your
11 questioning, Ms. Johnston, you can let me know when it
12 would be an appropriate time to break for the day
13 since we're approaching 5:00.

14 (Admitted Exhibits 60 and 61.)

15 MS. JOHNSTON: Perhaps just three more
16 questions for today.

17 Q. Now, Mr. Eliassen, in response to dep
18 request No. 11 you show that as a result of the
19 recently obtained demand side management tariff rider
20 that Water Power's capital expenditures decreased
21 by \$5 million in 1995 and \$2 million in the years 1996
22 and, 1997 and 1998; is that correct?

23 A. Yes, that's correct.

24 Q. So is it a correct interpretation that in
25 July of 1994 prior to the tariff rider proposal the

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1 company was budgeting \$2 million for all of its DSM
2 program in 1996 through 1998?

3 A. I'm not sure I followed that. Because of
4 the reduction between 72 and \$70 million?

5 Q. Yes.

6 A. I don't think that's an accurate
7 characterization. Remember, again, that the only
8 adjustment we've made here is what we assumed was to
9 reflect the Washington DSM rider which is the
10 1995-1996 riders. My understanding it's a two-year
11 rider and this is Washington-only.

12 Q. Then why does your response to dep request
13 11 show the years 1997 and 1998?

14 A. As a reduction?

15 Q. Yes.

16 A. Here again, I don't know the answer to
17 that.

18 Q. Who does?

19 A. It can be reconciled but I don't know the
20 answer.

21 Q. Would you think you would have time to
22 reconcile this tonight before we resume questioning
23 tomorrow?

24 A. We can probably do it by a phone call just
25 to find out what the assumption was in 1997/1998

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1 that's different from the other two years.

2 Q. Would you be willing to do that?

3 A. Sure.

4 Q. In 1995 and 1996 as well.

5 A. Well, I think -- well, okay, yes.

6 Q. Perhaps you can't answer my next question
7 either yet, but I was going to ask that it's true also
8 that the company was budgeting \$5 million for DSM
9 activities in 1995?

10 A. I think we're actually budgeting more than
11 those amounts in all of these years, but again, this
12 is the amount that supposedly reflects only the impact
13 of the Washington DSM rider.

14 Q. But it has also been approved. Is that
15 true?

16 A. I don't think -- well.

17 MR. MEYER: Not yet.

18 A. It's not approved and I think this only
19 reflects the Washington order. It does not reflect an
20 assumption for Idaho. Does not reflect any ongoing
21 commitments to other conservation programs that aren't
22 covered by riders either.

23 MS. JOHNSTON: I think we'll start
24 tomorrow, Your Honor, with a discussion of the years
25 1997 and 1998.

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1 JUDGE CANFIELD: Okay. That would be a
2 good time for our break then since it's the end of the
3 day, and as I indicated earlier, there's other
4 Commission business pending in the morning and we will
5 not be able to start tomorrow until 1:30 in this room.
6 So unfortunately that's what we're up against, so
7 I will see you tomorrow. We're adjourned for today.

8 (Hearing adjourned at 5:00 p.m.)

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